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FUNDAMENTALS OF GOVERNMENTAL ACCOUNTING

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BY

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SECOND EDITION

SUCCESSOR TO

INTRODUCTION TO GOVERNMENTAL ACCOUNTING

NEW YORK · JOHN WILEY & SONS, INC.

LONDON · CHAPMAN & HALL, LIMITED

5·50
27/8 New Book.

PRINTED IN THE UNITED STATES OF AMERICA

Informative accounting is the light by which the path of public administration is illuminated. The only hope that we can have for an interest in the administration of public affairs by the body politic is to keep that light burning brightly. The keeper of the light must never sleep, for, notwithstanding the fact that the public seems at times totally indifferent to the administration of its affairs, it nevertheless is true that an informed person will ask questions. He will want to know the reason why. Accounting tells the reason why.

T. Coleman Andrews, C.P.A.

RICHMOND, VIRGINIA

From Address at Municipal Accounting Clinic, American Institute of Accountants, San Francisco, September 20, 1939

Regardless of the position we may hold, as public administrators, we should rise to our high public duty, devoting ourselves in a cooperative effort by joining in a program to build an accounting and reporting system which will provide adequate safeguards for the public funds, necessary tools of management, and information which will give the American citizens a true statement of the government's fiscal affairs. The government accountant should be a servant of administration and, at the same time, a watchdog for the people.

Edward F. Bartelt

FISCAL ASSISTANT SECRETARY,
UNITED STATES TREASURY DEPARTMENT

From Address at 43d Annual Conference of Municipal Finance Officers Association of the United States and Canada, Detroit, May 25, 1949

PREFACE TO SECOND EDITION

The years that have elapsed since the 1942 edition of this volume have been marked chiefly by the further extension of the activities mentioned in the foregoing preface. Little major change in basic principles or terminology has taken place. The number of cities following these standards has steadily increased. Considerable improvement has taken place in accounting and auditing in the federal government.

In the present volume the authors have made every effort to be guided by constructive criticisms received from the many teachers who have used the volume and to expand the explanations so that they will be more complete. Previous problem material has been improved, and, in addition, a series of problems is added taken from the uniform Certified Public Accountant examinations of the American Institute of Accountants. The list of references has been extended to include a number of important additions.

LLOYD MOREY
ROBERT P. HACKETT

URBANA, ILLINOIS
January, 1951

PREFACE TO FIRST EDITION

Proper methods of accounting and financial reporting are essential for every business, whether large or small. In public affairs they are of even greater importance because they must be depended upon to prove the integrity and the efficiency of those upon whom the responsibility of government has been placed. Government has become one of the nation's major industries. With the increase of governmental functions the necessity for adequate methods of financial administration is steadily augmented.

Evidence of the interest in the methods and adequacy of the financial records and reports of public bodies has expressed itself in the following events and developments of recent years:

1. The creation and work of the National Committee on Municipal Accounting, which has developed and secured a wide acceptance of basic principles, definitions of terms, and standard forms of financial reports for municipalities.
2. Discussions of the subject in general and special meetings of national associations of accountants and public officials.
3. A material increase in the number of courses devoted to the subject in colleges and universities.
4. The inclusion of questions in this field in the majority of accountancy examinations.
5. The publication of many notable additions to the literature of the subject.
6. A widespread interest in improvement of the accounts and reports of state and local governments and institutions.
7. An extensive discussion of the problems relating to accounting and reporting in the federal government.

As a result of these activities, an authoritative and acceptable body of underlying principles applicable to public accounts has been developed and has received general

recognition. This volume is intended to present these principles and a broad outline of their application. It deals chiefly with principles rather than with details of form or procedure, and concerns itself with matters more or less common to all types of governments and public institutions. Its purpose is to present the essentials necessary for a fundamental picture of the problems involved for students in accountancy and public administration and for the reference of teachers, practitioners, and officials.

To illustrate more effectively the principles set forth herein, typical transactions are presented under each subject. These transactions are numbered serially in each chapter and are carried into illustrative general ledger accounts by entries bearing these numbers. Financial statements based on these accounts are exhibited. The transactions and accounts, as well as the statements prepared from them, are progressive throughout the book. As a further aid in the study of the material presented, a series of problems is included, covering practically all the important features of both principle and procedure.

LLOYD MOREY
ROBERT P. HACKETT

URBANA, ILLINOIS
October, 1942

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CHAPTER I

SCOPE AND FUNCTION

The Field of Governmental Accounting. Government in the United States is carried on by about 150,000 separate agencies. The list includes the federal government, the various states, counties, cities, towns (or townships), school systems (urban and rural), park, sanitary, health, drainage, and other separate units. The majority of those mentioned have the power to levy and collect taxes. There are also many other public agencies, more or less autonomous in nature, which operate under the authority of some governmental body. For example, the federal government has set up a number of separate corporations for carrying on certain types of federal business, such as the Reconstruction Finance Corporation, the Federal Housing Authority, the Tennessee Valley Authority, and the Atomic Energy Commission. In state governments and in many cities, publicly supported universities and colleges are found; in cities are found libraries and hospitals.

Governmental accounting deals with all these agencies and activities. Each of them, like each type of private business, has problems of finance and accounting peculiar to itself. The same fundamental principles, however, apply to all, and a main outline of accounting procedure therefore may be studied in relation to the entire field.

Federal, state, and local taxes of various kinds in the United States probably equal not less than one-fifth of the country's income, or at least fifty billion dollars. Other receipts of governmental bodies—public utility services,

special assessments, trust receipts, for example—make up a sum of sizable proportions in addition to tax receipts. Outstanding debt obligations of state and local governments approach twenty billion dollars, and those of the federal government exceed two hundred fifty billion dollars.

Governmental accounting must deal with all these sums and items.

Distinctiveness of Governmental Accounting. In many respects, the accounts of governmental bodies are similar to those maintained for private business. The essentials of double-entry bookkeeping are to be followed here the same as elsewhere. Many items of terminology and many features of reporting are the same in both instances. However, as will be shown in more detail later, governmental accounts and reports do differ in certain fundamental respects from those suitable for private concerns. These distinctions result from certain basic differences in the nature and relationships of the two types of organization.

Governmental accounting is a distinct field of accounting, which must be developed and studied with full regard for the conditions governing the agencies and operations with which it deals.

Finance in Government. In many respects, finance is government's greatest concern. The activities for which government is responsible can be carried out only if financial support is maintained. Every undertaking must be weighed in the light of its financial implications. Government's relations to its citizens are largely financial, and this phase of its operations affects the individual citizen most directly. Sound and efficient financial management is essential to the success of every public agency.

Adequate and effective accounting, in its various phases, is indispensable in securing the best financial management. Through it, and it alone, can information be secured, on the basis of which plans can be made and operations controlled.

Only through it can the public know what has transpired and whether regularity and fidelity have prevailed.

Organization of Government. Before an accounting system can be set up for any undertaking, it is important to secure an understanding of its organization. Public organization differs considerably from that of privately owned concerns. In private affairs, business is commonly organized under one of the following types: single proprietorship, partnership, or corporation. These types have been developed to provide and express ownership in various ways suitable to conditions in the respective cases. Primarily they express *personal* ownership and interest of one or more persons, on the basis of which these individuals benefit proportionately.

Public business in the United States commonly is conducted under what is known as the *public corporation.* The powers enjoyed by such agencies vary in the different instances. The national and state governments exercise sovereign powers, granted to them in their respective constitutions. Local governments, in most instances, receive their powers through statute or charter from the state, and their powers are limited to the provisions of these documents. Various other public bodies in some situations are endowed with corporate powers by the national or state governments.

In the public corporation, all citizens making up the political unit by virtue of their right of franchise, such as the national, state, and local governments, are, in effect, "members" or "stockholders" thereof. In public institutions or similar bodies, those persons elected or appointed as members under provisions of law constitute the corporation's members. All such persons act in a corporate capacity, without individual liability (except in case of fraud or illegality), the same as in a private corporation. However, they do so without the right of sharing as individuals in the ownership of property or in any gains that may ensue.

Public Corporation Powers. The powers and rights of a public corporation correspond in general to those of a private corporation. Within the limits indicated by the pur-

pose for which it is established, the public corporation ordinarily has the following powers similar to those of a private concern:

1. To have a corporate name.
2. To sue and be sued.
3. To contract and be contracted with.
4. To acquire, hold, and dispose of real and personal property.
5. To borrow money for corporate purposes.

There are many limitations, however, on the extent to which these powers may be exercised by most public corporations as compared with private corporations. For example, many governmental bodies cannot be sued other than in connection with a contract. Limitations frequently prevail on the extent to which public bodies may enter into contracts which involve financial liability, this authority often being limited to a single fiscal period or to funds presently available. Limitations as to the amount they may borrow without securing special authority from the people or from a superior government are placed on practically all governmental bodies except the federal government.

In addition to the powers already listed, there is one additional power enjoyed by most governmental bodies other than institutions and special agencies, that is, the *power to levy and collect taxes.* No private corporation has that right. It is an authority which constitutes the basis of the financial structure of government generally and provides the resource on which government primarily depends for its maintenance. The presence and use of this power, therefore, have a far-reaching effect on the accounts and reports.

Peculiar Characteristics of Public Corporation. Whereas the powers of a public corporation are in many respects similar to those of a private concern, its objectives, organization, and accountabilities nevertheless are materially different. Besides the special power of levying and collecting taxes, there are certain qualities peculiar to it which distinguish it from a private corporation, all of which qualities

have a definite effect on its financial procedure and on the nature and content of its accounts and reports. Consequently they must be understood in approaching the study of what constitutes an adequate accounting system for such an undertaking.

These characteristic qualities may be stated under the following heads:

1. Purpose.
2. Ownership.
3. Management.
4. Income.

Public Corporation Purposes. The usual purpose of a private corporation is to make a profit. Though it may render services of an important or even an essential public nature, if it represents the investment of individuals, its operations are directed toward making a profit and avoiding a loss. The purpose of a public corporation is to render service, general or specific, to the public as a whole in the area covered and at as low a cost as possible. Only rarely does it engage in any enterprise with the expectation of making a profit and, even if profits ensue, they are retained for public uses and are not available for use by, or distribution to, specific individuals as they are in a private corporation.

These facts eliminate the necessity of determining profit and loss in the ordinary governmental operations or of keeping accounts or rendering reports with that end in view.

There is one major exception to this general condition. Where a business enterprise is carried on by government, of a type frequently operated under private ownership, such as a utility, it is highly desirable to determine the true profit and loss of such an enterprise. In this event, the accounts should be kept in general accord with commercial practices.

Public Corporation Ownership. Mention already has been made of the fact that no individual ownership exists in a public corporation and that ownership is vested solely in the body politic as a whole. Although all individuals making up this body may be said to have a share of owner-

ship in the corporation's assets, they cannot dispose of that share or in any way realize any specific return thereby. The value is represented by the service the corporation renders to them.

A public corporation also holds its property in two capacities. Some property it holds as an outright owner, using this property for public purposes. Even then there frequently are limitations on its power to convey, and particularly on its power to mortgage such property for debt. If the property is disposed of, there may be limitations on what may be done with the proceeds. In any event, the proceeds cannot be distributed to individuals.

Other property often is held by the public corporation in trust. This property may be used only in accordance with the limitations of the trust in each instance. In some cases, the principal or corpus must be invested and kept inviolate, the income only to be used. In others, the principal is to be used, but only for some specific purpose. The use of income or principal may be for some public purpose or it may be for the benefit of some individual or group of individuals.

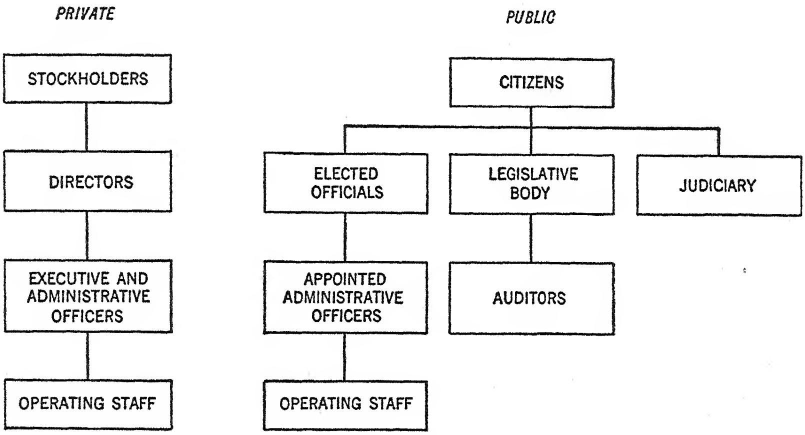
Thus the public corporation frequently acts in a triple capacity: as an owner, as an operator, and as a trustee.

Public Corporation Management. Management in a private corporation represents a definite succession of authority and responsibility. Stockholders, as owners, elect a board of directors; directors elect officers upon whom are placed the major responsibility of management; officers appoint or employ the administrative and operating staff. Relatively few internal limitations are placed upon directors or officers, but they are held responsible for results and are fully accountable. Outside restrictions imposed by law, while growing in number and now assuming major proportions, are general and apply to all corporations in a given area alike rather than specifically to any one concern.

Public bodies and their officers, on the other hand, are governed in almost every act by specific laws, regulations, or restrictions. The control and management of finance in

a public corporation is largely a process of limitation. The citizen public, through its various constitutions, places limitations on its representatives, legislative and executive, by limiting the conditions under which taxes may be levied, debts incurred, and expenditures made. Superior governments place limitations on subordinate divisions, such as states over local bodies. Legislative bodies place limita-

CHART I
PRIVATE vs. PUBLIC ORGANIZATION



tions on executives, administrative officers, and department heads through revenue and appropriation acts. Executives, also, through regulations and administrative orders, place restrictions on department heads and other operating officers through budgetary allotments, work programs, expenditure procedures, etc. Chief executive officers of the national, state, and city governments have certain rights of veto of the acts of legislative bodies. Finally, the courts constitute independent reviewing bodies whose decisions may result in further restrictions on the actions of other branches of government. The contrast in relationships in private and public enterprises is illustrated in Chart I.

Altogether, these decisions constitute, in most instances, a formidable body of laws and rules which must be followed

and which vitally affect the powers and procedures with respect to finance and financial records.

Public Corporation Incomes. The earned incomes of any business consist of the returns from charges made by it for services rendered, either in the form of direct service or of commodities sold. In a private business, this charge ordinarily is based on the cost of the service, including the wear of physical assets and the cost of borrowed capital employed plus a margin of profit to be returned to the owner or owners. Prices of such service are contingent, to a considerable degree, upon the market and the demand for it and upon the voluntary interest of the public in each particular service. Most of the time this interest is stimulated by efforts of the vendor, the cost of which efforts also are covered in his selling price. A private concern has no guarantee, however, that it will be able to sell its goods or services or recover its cost and has no power to force the public to maintain it.

The incomes of a public corporation consist likewise of returns from charges made by it for services rendered. Taxes are levied to cover the estimated annual outlay for the services which the particular governmental unit has been set up to provide, such as fire and police protection, schools, or park systems. Fees are charged for certain specific services, such as automobile license plates. But these charges in total are based on the annual outlay necessary for that service for each fiscal period and are levied on a uniform basis against all citizens benefited in each instance. Within the limits placed upon it, each governmental body has the power to make these levies and enforce their collection. Governments seek sundry means of securing the revenue necessary for their maintenance, some of them directly related to the specific services to be rendered and others having no such direct relation.

Because many of these levies for revenue purposes are for specific ends, frequently they are made under limitations which provide that the money collected shall be used only for the specific purposes for which the levies were made.

Debt obligations, also, frequently are incurred to secure funds for some definite purpose only. Gifts are received with restrictions as to how the money is to be used and as to whether both principal and income or only the income may be expended.

Thus governments, in spite of their great powers, operate under a wide range of limitations with respect to the ways in which their income may be secured and used, and this fact has an important bearing on the financial procedures, including the accounting.

Scope of Financial Administration. Public financial administration involves a number of elements and objectives with which the accounting procedures must be coordinated and with which they must serve. An understanding of those elements is important in the development of adequate accounting in its various phases.

The essential phases of financial administration with which accounting is involved may be stated under the following heads:

1. Assessment of charges, such as taxes, licenses, fines; billings of services, such as utility bills; collection of interest on investments; grants from superior governments; gifts and deposits. For each of these items an adequate control is needed from the time it becomes a resource until it is finally collected.
2. Control and custody of cash. This involves control as to who may receive money; records of receipt of money; disposition of money received; petty cash and other advances; deposit and custody of public funds.
3. Purchasing and general stores. There should be the fullest practicable centralization of purchasing and of control over central stocks of materials. There should be a central and uniform record of all commitments for purchases.
4. Control over expenditures. The whole program of financial administration is directed more or less toward this end. There are, however, certain important mechanics to be observed, such as proper authorization for incurring expenditures, proper recording of obligations incurred, checking of receipt of goods by responsible employees, proper certification of vouch-

ers providing for payment, and adequate accounting at every step.

5. Control over employment and payrolls. Under this heading are involved proper authorization for employment and rates of compensation, keeping of adequate employee records, affecting suitable check on service, preparation and checking of payrolls, and delivery of payroll checks.

6. Control of property other than cash. In this category are securities, consumable supplies, equipment, buildings and other improvements, and land. Their proper administration involves suitable allocation of responsibility plus the requirement of accountability.

7. Incurring and paying debt obligations. This involves not only correct legal procedure but also control of documents, both before and after payment, and the recording of obligations incurred, maturing, and paid.

Accounting, in its various forms, enters vitally into each of the foregoing areas and, without its proper functioning, the maximum control and effectiveness in them cannot be achieved.

Purpose of Public Accounts. Accounting has been defined as "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."[1]

The general purpose of accounting is the same in all undertakings. In private enterprises, the following purposes may be considered paramount:

1. To produce *information* concerning past operations and present condition.
2. To provide a *basis for guidance* for future operations.

The foregoing purposes primarily serve the owners and operators of the business. If the scope of the business is of broad public interest, its ownership widely spread, and its bonds and similar obligations extensively held as investments, as is now true of most large corporations, the facts

[1] American Institute of Accountants: *Report of Committee on Terminology,* Accounting Research Bulletin 9, May, 1941. (See also Footnote 1, page 11.)

concerning the enterprise become matters of general public concern and of governmental regulation. The accounting, therefore, must serve these ends by providing for prompt, accurate, and complete recording of all financial transactions and for ready translation of those records into serviceable financial reports.[1]

All governmental operations are of this character. For that reason, governmental accounting must be directed not only toward the purposes already mentioned but also toward the following:

3. To provide for *control* of the acts of public bodies and officers in the raising and expending of funds.
4. To *publicize* the facts concerning financial operations and condition of governmental bodies for the information of the citizens concerned therein.

Because the acts of all governmental bodies and officials, as already described, are limited in a variety of ways, particularly with respect to financial operations, means of control over them and of requiring an adequate accounting from them must be provided. Accountancy, in its various aspects, constitutes the most important means by which this control can be exercised, first on behalf of the public, second on behalf of law-making bodies over officials, and lastly on behalf of officials over subordinates.

Publicity is a foundation stone of democracy. Every citizen is entitled to adequate information concerning all governmental financial operations. The accounts should furnish readily the means for accomplishing this end. They should provide information in a form that is both comprehensive and intelligible to the average citizen. They should provide ready means of meeting all requirements of reporting, such as reports to central statistical agencies like the United States Bureau of the Census and similar state agen-

[1] Cf. W. A. Paton and A. C. Littleton, in *An Introduction to Corporate Accounting Standards:* "The purpose of accounting is to furnish financial data concerning a business enterprise, compiled and presented to meet the needs of management, investors, and the public." American Accounting Association, 1940. (Used by permission.)

cies which assemble comparative data. Both the public and the officials, also, are entitled to an independent verification of the financial reports through proper audits.

The Accounting Cycle. Accounting in government should not be considered from the standpoint of bookkeeping records alone. They are only a part of the total scope of the complete program. The instruments which are essential to efficient public management and financial control are: (1) the budget; (2) the accounts; (3) the reports; (4) the audit.

The budget is the program for a specific period or activity of a given governmental body, expressed in financial terms and expected results. When enacted into law through revenue and appropriation acts, it becomes the authority and the controlling instrument over all financial operations.

The accounts constitute the record of the execution of the program and of all financial transactions. They should reveal the progress of the program as contained in the budget and the present status of all factors entering into the financial picture.

The reports provide the means whereby the information contained in the accounts is made available to officials for their further guidance and to legislative bodies and the public. They should indicate to what extent the program, as expressed by the budget, has been carried out and should show the actual, as compared with the contemplated, results.

The audit is the verification of accuracy in accounts and reports and of fidelity in the handling of funds, property, and records. It becomes a guide for the preparation of the budget of the succeeding period, and thus a complete and continuous cycle is formed.

Relation of Legislative Bodies to Accounts. All matters relating to public finance are at one time or another subjects of legislation. General or specific authority for financial acts and procedures rests with the legislative body, subject to limitations of constitutions or of superior governments. Executive and administrative officers may proceed only by

this authority. Public accounts, therefore, must be kept with careful regard for all acts of law that affect them.

The most important legislative enactments affecting the accounting of its own affairs or those of subordinate governments are

1. Those acts authorizing the raising of revenue.
2. Those acts making appropriations for expenditures.
3. Those acts authorizing the borrowing of money.

No assessment of taxes or of other forms of revenue-producing levies may be made for any government except in accordance with action taken by its legislative body. In the federal government, this means the Congress; in the states, the state legislature, which also in most instances must determine the limits within which local governments may act; in cities, the city council. No obligations may be entered into nor money disbursed except in pursuance of a law making appropriations or in otherwise authorizing the incurring of obligations.

The law-making bodies of the various governments must depend upon the accounting system in its various phases to provide information necessary to indicate the progress of financial programs, the stewardship of responsible officers, and to provide guidance in framing new acts relating to finance. The record of past operations, as shown by the accounts, furnishes a working basis for the development of budgets for the future and for the determination of departmental efficiency and regard for law in the past. The enforcement of the limitations set by legislative bodies on the financial operations of departments and officials depends for its success largely upon the accounting system and the reports which it produces. The accounts are also the basis for the independent audit (which every legislative body should have) of the acts of officials who are made responsible for financial operations.

Executive and Administrative Use of Accounts. For the governmental or institutional executive or administrative officer or department, the need of a comprehensive sys-

tem of accounts and reports is both positive and constant. The executive depends upon the accounts for information, supplied to him in the form of frequent and regular reports, as to progress of budget operations, present financial condition, and prospects for the remaining portions of fiscal periods. He makes use of them in checking on the activities of subordinate officers and agencies. He must have them for use in preparing the financial program for future periods for presentation to the legislative body.

Financial and other administrative officers rely upon the information furnished by the accounts for guidance in auditing expenditures and in controlling financial operations of various departments, in preparing budgets of fiscal periods, and in preparing all financial reports required of them. Department heads depend upon the accounts for necessary current information as to condition of appropriations, results of operations for which they may be responsible, and for data on which to base requests for support for future periods.

In summary, it may be said that every public official responsible directly or indirectly for the collection or expenditure of public money, or for the custody of money or other property, must rely upon properly kept accounts to produce the information necessary for him to make a correct report of his stewardship to those to whom he is responsible.

Public Use of Accounts. The public is not and need not be concerned with the details of accounts or accounting procedures of governmental bodies or public institutions. It should be concerned, however, that adequate procedures in all matters relative to accounting are set up in accordance with sound principles and consistently are followed. Such a situation gives much assurance as to the orderliness and honesty with which the finances are being handled.

The public should be concerned primarily with the budget, since it is through that mechanism that it has the best opportunity to know what the representatives and officials it has chosen to run its business plan to do and what effect the proposals will have on its pocketbook. It should

then insist that there be a regular and understandable reporting to the public. This means that the accounting must be complete and accurate and that the financial reports must be in a form that will give adequate information as to results and condition. For this purpose, the reports not only must be in good accounting form but also must be accompanied by interpretative explanations, so that citizens untrained in the technical character of governmental financial statements may be able to understand them.

The public should also insist on an independent examination and verification of the financial records and reports by certified public accountants.

Financial Organization. The effectiveness of the accounting procedure in government as well as in private business depends largely upon the presence and the proper functioning of a responsible organization. The first requisite for such an organization is a proper allocation of responsibility. There must also exist the means of enforcing accountability.

Conditions in various governments vary materially. Existing laws also differ in their requirements. No one rule or pattern can be stated which will be found to be universally followed or applicable. Broadly speaking, the executive branch of the governmental body or the chief executive of a public institution should lay plans and make recommendations as to necessary expenditures and the means of financing them. The legislative body should consider these proposals and reach its own conclusions as to the resources necessary, the means of providing these resources, and the way in which they are to be expended. It must make rules and regulations that will insure a business-like financial procedure. The executive has the right to veto any acts of the legislative body which he thinks are not in proper form or in the public interest. When the acts of the legislature become laws, the executive and administrative organization becomes responsible for seeing that they are carried out. The legislative body should provide itself with the means for independent check and observation of results through periodical reports concerning this execution.

In the administrative organization, responsibility for financial functions other than independent audit should be unified in a single department of finance. This department should carry out all duties relating to the supervision of budgetary control and accounting; levying and collecting taxes and other revenues, as authorized by the legislative body; receiving and disbursing money; purchasing supplies and equipment; and serving as custodian of money, securities, general stores, and other general property. Suitable divisions should be set up within this department, among which these functions can be distributed in such a manner as to provide adequate means of internal check. A typical organization of such a department might be as follows:

Revenue division (assessments and collections).

Treasury division (receipts, disbursements, custody of money and securities).

Audit division (administrative examination and approval of revenue levies, receipts, requisitions, and vouchers; internal audits of other divisions and departments supplementing independent audit).

Accounting division (accounts and financial reports).

Purchasing division (purchases and general stores).

Property division (general property).

The department of finance should also render service in the preparation of the budget. In some instances, it is responsible for this function, and then a separate division is needed within the department. In others, the preparation of the budget is an executive matter and the budget division is attached to the executive branch. In a few cases, the budget division is attached to a committee of the legislative body. Data concerning past operations, however, should come from the department of finance, and its aid is essential in estimating revenues and in advising executive and legislative officials concerning various expenditures.

Accounting Organization. With respect to the accounting organization also, no single pattern can be laid down. As a general principle, all accounting "should be centralized under the direction of one officer. He should be responsible

for keeping or supervising all accounts and for preparing and issuing all financial reports."[1] This does not mean that all accounts must be kept in the same place. Accounts should be kept where they will be of the most service, which frequently means at the seat of operations. It does mean that a central officer should pass on their form and adequacy and that information from them in the form of financial reports should clear through that office. It does not mean that all accounting must be uniform. In the general departments of most governments, substantial uniformity can be achieved. Institutions, utilities, and special agencies, such as federal corporations, however, must have systems adapted to their needs and conforming with similar activities of either a public or private character elsewhere. For general reporting purposes, certain data from these units may be assembled under headings uniform with other governmental divisions.

Conditions, with respect to accounting responsibility, necessarily differ widely in different governments. In the federal government, with operations scattered all over the world, a decentralized system of accounting is a practical necessity. The various agencies also differ widely in their needs. Some, like certain of the independent corporations, require a system on more or less of a commercial basis and complete in every detail. Others, like most of the cabinet departments, are concerned mainly in accounting for appropriations. In a state and city government, most of the accounting can be unified. However, distinct systems are essential for institutions, such as schools, universities, colleges, hospitals, libraries, and utilities, which will meet their operating needs and will give suitable information concerning them.

The important thing in this respect is that the accounting be adequate and suitable to the needs in each instance; that it be under at least the general supervision of a central officer; and that financial information covering the govern-

[1] National Committee on Municipal Accounting: *Municipal Accounting Statements,* 1941.

ment as a whole be assembled and issued by him regardless of the type of subsidiary reports issued by the several agencies themselves. Lastly, all accounts and reports should be the subject of adequate independent audit.

Legal Restrictions. One of the major difficulties in connection with the study and development of governmental accounting, and one which must have constant consideration, is found in the numerous and varying provisions of law which affect its operation. There are federal and state laws which affect the accounting not only of these governments themselves but also of governmental bodies subordinate to or receiving aid from them. For example, provisions with respect to federal aid to states and other governmental units often contain requirements which affect accounting in those units. Laws of states respecting local governments usually make more or less specific provisions affecting financial procedure. These laws, though intended to provide fuller control, and often containing admirable provisions, frequently make requirements or contain terminology contrary to the best principles or procedures in accounting.

As long as such provisions exist, they must be followed. This fact often leads governmental bodies to use an unsatisfactory system of accounting and reporting, whereas in nearly every instance it is possible to meet the special requirements and still follow sound principles. In many cases, however, additional work and procedure are necessary, and officials do not put forth the effort to overcome the limitations placed on them.

Because of these conditions, in actual practice many variations will be found from the principles and standards generally accepted as applicable and desirable in governmental accounting. It would be impracticable if not impossible to record and consider all these variations. It is preferable to study an outline which is more or less common in its broad features and which represents a consistent plan based on sound principles, generally applicable, and a model toward which future laws and other actions may move.

This volume is designed in that manner and with that objective.

Municipality As a Model. Of the many types of governmental bodies, the municipality or city government offers, on the whole, the best and most satisfactory model for study. Cities hold a major place in the governmental structure in the United States and touch the lives of individuals more closely than most other governments. The individual citizen is in closer contact with the affairs of his local community than with most other governmental units.

Fiscal procedures of cities have received more study and have been brought to a higher standard of perfection than those of most other governmental units. This is not to be taken to mean that the accounting and other financial activities of all cities are on such a plane. There exists at this time a wide variation in this respect. Many cities, both small and large, have excellent systems and organizations; many others, of all sizes, are deficient in many respects. However, genuine progress is taking place.

More definite standards of accounting have been developed for cities than for most other types of government. This is owing considerably to the fine work of the National Committee on Municipal Accounting. This group was organized in 1933 from representatives of the leading national associations of public officials, accountants, and accounting instructors. It has formulated and disseminated fundamental principles and standards for accounting, uniform terminology, and model forms of financial reports for cities. Its work is authoritative in nature and has received wide approbation. In many respects, it is applicable to all types of governmental bodies, and therefore represents a highly important basis of approach to the entire study of governmental accounting.

In view of these facts, this volume deals more with situations found in cities than in other types of government. Some of the funds and accounts described are found only in cities. In most respects, however, the material applies to all governmental bodies, at least in principle.

CHAPTER II

PRINCIPLES AND STANDARDS

Principles Are Needed. After the particular conditions and needs of a given governmental organization have been determined, before detailed accounting and reporting procedures can be perfected, a statement of the underlying principles which will govern the accounting system is essential. A principle has been defined as "a general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice."[1] It provides the broad basis upon which the general accounting structure can be erected. Only by the development and consistent application of sound principles can a complete and adequate system be formulated.

Purpose of Principles. As the definition of the term principle indicates, its fundamental purpose as applied to accounting is to establish the basic concept upon which the detailed accounting system can be built. It represents the starting point in the program.

The American Institute of Accountants, in its studies of accounting principles and procedures, has emphasized two basic requirements: (1) that the accounts and reports be based on "generally accepted" principles; (2) that these principles be "consistently followed" in successive periods.[2]

To be truly useful, therefore, a principle must be generally accepted, that is, it must represent the judgment of an authoritative group of individuals or organizations and must be followed to a major extent by other concerns or enterprises of a similar nature. It must also be followed consist-

[1] Victor H. Stempf, *Journal of Accountancy*, page 105, August, 1941.

[2] American Institute of Accountants: *Statements on Auditing Procedure*, 5, February, 1941.

ently period after period; in other words, there should be continued adherence to the principle, and changes should be made only for substantial reasons and purposes.

Basis for Principles. In setting up a body of principles for any given area of accounting, it is essential that the particular conditions and needs be accurately established. The American Institute of Accountants, through its research department and committees, has made much progress in the development of accounting principles for private business concerns operated for profit.[1] Important contributions have also been made by the American Accounting Association.[2] However, these studies do not cover the requirements of non-profit governmental or institutional bodies. The needs for these enterprises must be determined through other channels.

In Chapter I it was brought out that public corporations have certain peculiar characteristics with respect to their financial structure and operation. It is now essential to determine the effect these conditions have on the accounting system. They make the procedures of governmental accounting differ in several important respects from those generally followed in commercial accounting.

Profit and Loss Accounting Not Required. As indicated in Chapter I, public organizations, except in accounting for utility or other business enterprises, are not concerned in determining a profit or loss in the usual sense. For that reason, many of the accounting devices followed with this end in view are not here required. It is neither necessary nor in most cases desirable to carry out a *full* system of accrual accounting, for reasons later set forth. Outlays for fixed assets made from revenue must be treated as expenditures and "capitalized" in another section of the accounts. The entry of and accounting for depreciation on general governmental property is not essential, for reasons to be given later.

[1] See Research Bulletins, American Institute of Accountants.

[2] See especially, "Accounting Principles Underlying Corporate Financial Statements," *Accounting Review*, June, 1936, June, 1941, and October, 1948.

Instead of a profit and loss accounting procedure, the emphasis is on an accounting for *revenues* and *expenditures* in each period. Under revenues, the important objective is the determination of the amount which has become available for use and against which obligations may be incurred. Under expenditures, the important question centers on what outlays have been made out of the revenues of the period or what obligations have been incurred which must be paid out of those revenues. It is also essential to determine whether there is an excess of revenues over expenditures or the reverse, namely, a deficiency resulting from an excess of expenditures over revenues.

Ownership Accounts Absent. Public corporations do not require accounts that express the ownership interest of individuals. Accounts of individual or partners' capital or of capital stock, therefore, are not needed. Accounts expressing proprietorship of a governmental body consist simply of various surplus accounts or their equivalent. These accounts constitute the excess of certain assets (and in some cases other resources) over liabilities and reserves and represent chiefly the accumulated excess of revenues over expenditures.

But, as will be shown later, this does not mean *one* surplus acount. It means as many such accounts as there are different *funds,* since each fund is a separate fiscal entity. There are also various kinds of surplus or equity to be distinguished. The surplus of some funds is expendable; in other funds, the equity represents the amount of a nonexpendable fund, such as an endowment fund, or of an investment in fixed assets. These different types of equities or proprietorship must be distinguished.

There is no one figure of "net worth" in a governmental body or institution.

Budgetary Accounts Required. Control over the financial operations of the management forces of a public body requires accounts that will indicate the progress and status of the budget. For this purpose, accounts for estimated

revenue, as well as for realized revenue, are required. It is necessary also to keep accounts of appropriations dealing with authorizations to incur obligations, of obligations incurred, of expenditures made, and of unobligated balance of authorizations.

These budget accounts constitute a basis for enforcement of the limitations set by higher authority on collecting and spending, officers and agencies. They introduce into the accounts the estimates made in advance of the revenues from each source and the expenditures for each purpose during the succeeding fiscal period. Against these estimates the actual transactions are to be entered as the period progresses. Comparison between the two thus is readily available. The use of budgets in commercial undertakings is not unusual and is growing. Such budgets, however, frequently do not cover the entire operations but apply only to certain areas and programs. They represent forecasts and objectives, rather than limitations, except as to certain specific expenditures. They are rarely, if ever, brought into the general books of account but are used for memorandum reference only.

In governments, however, budgets are both comprehensive and binding. They cover all funds and activities. They are reflected in laws or other actions which operating officers and agencies must follow. Hence they constitute a part of the historical progress of the financial program. It is for these reasons that it is appropriate to incorporate them in the general books of account and reflect them in financial statements. They may be said to represent a further extension of the accrual principle in accounting, by recording anticipated operations, which have been formalized by the action of legislative or other bodies having power to authorize and set limits on such operations.

Accounting by Funds Required. Because public corporations do not have full control over the incomes and property received by them, which, in many instances, are subject to special restrictions, definite means of carrying out these

limitations must be established. To that end, the process is followed of setting up a separate *fund* for each restricted item. In this way, money or other property, received from a specific source and designated for use only for a certain purpose, is earmarked and held inviolate to that use. Each fund is a complete accounting entity, having its own assets, liabilities, revenues, expenditures, and surplus. Its assets are segregated from all other assets and applied only to the purposes for which the fund was created. This means that the governmental balance sheet, instead of being a single statement as in commercial accounting with accounts grouped under various headings, and ownership expressed in a single total, is in fact a group of balance sheets, each complete in itself and expressing its own position separately.

Examples of situations requiring separate funds are tax levies for definite purposes; bond issues for particular improvements or other objects; gifts for specified uses. The process of funding is one of the most distinctive and vital features of public accounts and affects their operation and classification throughout as well as the methods of preparing reports for them. Separate funds are found to a limited extent in commercial accounting but are a part of the general balance sheet, and not set forth in separate balance sheets.

Basic Principles. The special conditions just described, together with other essential considerations, require the establishment of basic principles which deal particularly with governmental accounting and which take cognizance of all these factors. The most important work toward the accomplishment of this end is that of the National Committee on Municipal Accounting.[1] That group has enunciated a series of basic principles and standard procedures for municipal accounting. For the most part, they are applicable to all governmental bodies. Because of their authoritative

[1] Name changed November, 1949, to National Committee on Governmental Accounting.

and comprehensive nature, they are presented herewith, with brief comments.[1]

The Organization Principle. "The accounts should be centralized under the direction of one officer. He should be responsible for keeping or supervising all accounts and for preparing all financial reports."[2]

The General Ledger Principle. "The general accounting system should be on a double-entry basis, with a general ledger in which all financial transactions are recorded in detail or in summary. Additional subsidiary records should be kept where necessary."

In the present stage of advancement of accounting, it would hardly seem necessary to state that the double-entry basis is essential. However, doubtless because of the incompleteness and primitive character of the records of many governmental bodies, particularly the smaller units, this basic stipulation has been included by the committee. It is too obvious and generally accepted to call for argument.

In the accounting system of a governmental body, as in every business, the General Ledger is the heart. Hardly any unit of government is too small to escape the need of this fundamental record. Any agency that owns any property, or has any obligations outstanding, should have at least this record in addition to its record of cash receipts and disbursements. The larger the unit, and the more varied its activities and financial operations, the greater the need for such a ledger becomes and the more the number and complexity of other records increases, including both books of original entry and subsidiary ledgers.

In the General Ledger, every account is kept or controlled, and every transaction recorded individually or in summary. The record of cash may be maintained physi-

[1] National Committee on Municipal Accounting: *Municipal Accounting Statements*, 1941. (Used by permission. Quotations used in the opening sentences or paragraphs of specifically titled sections in this chapter are from this volume.)

[2] This subject has already been discussed (Chapter I).

cally in another volume, but if so this record and its balance are in effect a part of the General Ledger. Leading to the General Ledger are the General Journal and the necessary registers. Supplementing it and controlled by it are the various subsidiary or detail ledgers.

The Terminology Principle. "A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports." (See also The Report Principles, page 33.)

It has already been pointed out that the budget, the accounts, and the reports (including the audit) constitute a continuous cycle of financial records. Since each one in succession supplements and implements the others, it is of vital importance that the language used in all of them be substantially identical. The budget should be set up in terms of regular accounting classifications. These classifications should reflect correctly the sources of revenue and the departmental organization and program of activities. The reports should reflect the results of the budget operations; hence they should follow the same classification. In this way, all these records will be aided in achieving their greatest usefulness.

The Fund Principle. "The accounts should be classified in balanced fund groups. The group for each fund should include all accounts necessary to set forth its operation and condition. All financial statements should follow this classification."

This principle has already been emphasized. It is one of the most distinctive and important principles of governmental accounting. It will be discussed at greater length in Chapter III.

The Segregation of Fixed Items Principle. "A clear segregation should be made between the accounts relating to current assets, liabilities, and operations, and those relating to fixed assets and liabilities. With the exception of working capital, utility, or trust funds, fixed assets should not be carried in the same fund with the current assets but should be set up in a separate self-balancing group of accounts. Simi-

larly, except in special assessment and utility funds, long-term liabilities should not be carried with the current liabilities of any fund but should be shown in a separate self-balancing group of accounts."

The basic reason for this principle is that fixed assets in most instances are not available to meet expenditures, and fixed liabilities in most instances are neither a lien against nor payable out of assets now on hand. Hence any equity represented by fixed assets should be segregated from that represented by current assets which may be reduced to cash and used to meet expenditures. Furthermore, fixed liabilities should not be so set up as to indicate a reduction in the sum available for current expenditures.

In expendable funds, such as those arising from taxes and other revenues, the accounts should be set up to indicate the amount available (described as "unappropriated surplus"), if any, available for further appropriation and expenditure during this fiscal period or in the immediate future. Obviously fixed assets are not so regarded, since they represent expenditures already made and property to be held indefinitely. Fixed or long-term liabilities are payable out of revenues to be raised in the future and, except for those maturing at an early date, are not a charge against current assets.

In the other funds mentioned, all assets are available to be used for the purposes of the respective funds, and all liabilities are a lien against those assets. Fixed assets and fixed liabilities are incorporated in the regular accounts of those funds. In the accounts of trust funds, such items would almost never appear except in the non-expendable group. Even with utility funds it is desirable to subdivide surplus to indicate what portion has been invested in fixed assets and what portion is represented by current assets and is therefore available for appropriation.

The Budgetary Control Principles. "The general accounting system should include budgetary control accounts for both revenues and expenditures."

"As soon as purchase orders or contracts are signed, the

resulting obligations should be entered as encumbrances of the funds and appropriations affected."

The budget is the program of financial operations for the period covered by it. The records should be formulated so that they indicate whether the operations are carried out in accordance therewith and so that actual results can constantly be compared with estimates and limitations. To this end, it is essential that the estimates and limits, as indicated by the budget, be incorporated in or maintained in close conjunction with the accounts in which actual transactions are entered. It is also essential that these records show obligations incurred, which must be paid from appropriations provided by the budget. Otherwise an overdraft might arise against one or more of these appropriations, which might in turn result in a deficit of the fund out of which the expenditures on account of these transactions must be paid.

The exact method of maintaining this control may vary under different conditions. Control accounts for budget authorizations and for encumbrances may be set up in the General Ledger, supported by subsidiary ledgers. This is the most complete and comprehensive method. However, especially in smaller governmental units, satisfactory control may be maintained through other less involved procedures, as explained in Chapter IV. In all events, if general ledger budgetary accounts are maintained, they should be incorporated in the general accounting system in each fund where needed, with other asset, liability, revenue, and expenditure accounts.

The accounts that are needed for budgetary control purposes are called budgetary accounts, as distinct from accounts for assets, liabilities, revenues, and expenditures. The latter are known as proprietary accounts. (They are not to be confused with proprietorship accounts, which, in governmental accounting, are represented only by the accounts of reserves, surplus, or principal of the various funds.)

In some systems, the budgetary and the proprietary ac-

counts are separated into two distinct and complete self-balancing groups. Since they deal to a considerable extent with the same transactions, this is undesirable. It means a considerable amount of duplication of both accounts and entries. If this separation is carried into the financial statements, much confusion is likely to result, especially for the lay reader. For these reasons, it is preferable that both types of accounts be handled in a single group in each fund.

The resources of a fund include both its assets in hand and other resources that are expected to produce usable assets during the fiscal period. Its obligations include the actual liabilities, orders, and contracts that must be met out of its fiscal resources and the further commitments of those resources in the form of appropriations. The excess of all resources over all obligations represents the sum available for further appropriation, or unappropriated surplus of the fund. This is a figure of vital importance. No correct statement of it can be made during a fiscal period except by taking into account all the unrealized resources of the fund for the fiscal period at the date taken and all obligations or commitments against those resources. This means that the proprietary accounts cannot safely be segregated from the budgetary accounts.

At the close of the fiscal period, budgetary accounts are closed, so that the resulting statement is one of actual assets, liabilities, reserves, and surplus. The last item is then more nearly a real surplus instead of being, in part at least, an estimated surplus, as is true during the fiscal period. (See Chapter III for discussion of term, "surplus.")

The Accrual Principle. "The use of the accrual basis in accounting for revenues and expenditures is recommended so far as practical. Revenues, partially offset by provisions for estimated losses, should be taken into consideration when earned, even though not received in cash. Expenditures should be recorded as soon as liabilities are incurred."

The full application of accounting on the accrual basis would correspond to that followed generally in private business. In it all income earned in a given period is treated

as income of that period whether or not it is due and whether or not it has been received. All expenses relating to the period are entered as expenses of the period whether or not they are due or payable and whether or not they have been paid. These procedures are followed largely for the purpose of determining profit or loss, which purpose, as already indicated, does not prevail in governmental accounting except in business enterprises, such as utilities.

The opposite extreme from a complete accrual accounting is accounting on the cash basis alone, which is followed by many small governmental bodies and by some larger ones. The accounts are said to be on a cash basis when revenue items are entered as revenue only when received in cash, and items are treated as expenditures only when the cash is disbursed for them.

In general, an accrual basis should be followed to the extent applicable, modified to take account of the objectives of a governmental body. Revenues should be entered when they are earned and become receivable, even though not received in cash. Ample allowance should be made, however, for abnormal delay in collection and for estimated losses through inability to collect. Only those amounts should be considered revenue that are reasonably certain of realization within the fiscal period under consideration or soon thereafter. Accrued items, not yet due, need not be set up except where profit and loss accounting is involved. Accrued interest not due or collectible until a succeeding period, on securities owned, for example, may best be treated as income of the succeeding period. Items need not be set up in a deferred status unless they represent revenue of a future period received in advance of that period, or unless desired for purposes of profit and loss determination, as in utility funds.

Expenditures should be accounted for and reported on a basis that will include as expenditures all items for materials or services used during the period under review. Accrued items, not yet payable, need not be set up except where profit and loss determination is necessary. Accrued

interest, not yet due, on obligations owed is treated as an expenditure of the succeeding period. Expenditures that may relate to several periods, such as insurance, are frequently treated as an outlay of the period in which the payment is made instead of being in part deferred. Deferred items need not be set up unless they are to be liquidated out of future income, such as premium on investments of trust funds, interest items in assessment funds, or unused expenses in utility funds. Except in these cases, such items may be entered in full as expenditures of the period in which they have been incurred and in which resources must have been provided to meet them.

The Valuation Principle. "Inventories of both consumable and permanent property should be kept in subsidiary records controlled by accounts in the general accounting system. The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or in the case of gifts, the appraised value at the time received. The computation of depreciation on general municipal fixed assets is not recommended, except for unit cost purposes, unless cash for replacements can legally be set aside."

Entry of depreciation on property of a governmental body other than in utilities and similar activities is not considered desirable for the following reasons:

1. Property values in governmental bodies are not used as a basis for credit. Hence it is not essential to show the current or replacement values in the books or financial statements. If such values are needed for insurance purposes, they should be computed separately.
2. Since an accounting for profit and loss is not required in the general operations of a government, the entry of depreciation as expense of those activities is not essential.
3. Unless depreciation can be provided for in the budget by setting aside funds to cover it, it should not be entered in the accounts because the accounts will then not agree with the budget.

4. The chief item of interest and importance in connection with permanent property is its cost to the taxpayers.

5. A reserve for depreciation would be useful only if it could be funded and if the cash representing it could be carried forward to provide for replacement of the property when it is worn out. This ordinarily is impossible and frequently illegal. Governmental bodies usually cannot raise more than sufficient revenue to meet actual expenditures during each successive fiscal period and are often prohibited or prevented from levying more taxes than necessary to this end. Public bodies usually must expend appropriations within the fiscal period in which they are made and cannot carry balances forward. Much property subject to depreciation is acquired through bond issues, and it would be impossible to raise by taxation an amount to provide for depreciation in addition to amortizing the bonds.

Many of the above reasons do not apply to any governmental body in which profit and loss are involved. In such operations, depreciation should be entered as an expense, as in a private enterprise of a similar nature, and Reserve for Depreciation credited. (See Chapter XIII.)

The Standard Classification Principle. "(*a*) The accounting for municipal business enterprises should follow the standard classifications employed by similar private enterprises. (*b*) Each college, hospital, library, and other public institution should follow the standard classification employed by similar private institutions."

The first part of this principle deals with such enterprises as utilities. Comment already has been made as to the importance of following recognized methods of profit and loss accounting in these enterprises, even when under governmental management.

The second part deals with special types of institutions frequently operated by governments. For such institutions, accounting systems and classifications should be maintained which will produce information according to accepted standards for such institutions. In colleges, for example, the recommendations of the National Committee on Standard Re-

ports should prevail.[1] For hospitals, those of the American Hospital Association should be followed.[2]

The Audit Principle. "A periodic audit by independent accountants is desirable."

The independent verification of financial transactions and records through an outside audit, made at least annually, is essential for every government body. Such an audit is needed for the protection and information of legislative bodies and executive officers and for the protection and information of the public.

This examination may be carried out by another department of the same government, by a superior government, or (preferably in most instances) by independent certified public accountants. The essential thing is that it not be under the control, in any manner, of the persons or departments being audited, that it be made by competent persons and in accordance with accepted standards, and that the public be informed as to the results.

The Report Principles. "Financial reports should be prepared monthly or oftener, to show the current condition of the budgetary accounts and other essential information. At least once each year a general financial report should be prepared and published.

"There should be general uniformity in the financial reports of all municipalities of similar size and type."

These principles embody the standards needed with respect to the presentation of financial information. Although not of themselves a part of the accounting procedure, they represent ends toward which that procedure should be pointed. Consequently the accounting system itself should be designed to serve these ends in the most complete manner possible. Otherwise its major objective, that of providing accurate and understandable information about financial operations and condition, cannot be realized.

Justifications for Differences between Commercial and Governmental Accounting. The necessities of financial

[1] *Financial Reports for Colleges and Universities.* (See References.)

[2] *Hospital Accounting and Statistics.* (See References.)

control which governmental accounting must serve, requiring funds, budgetary accounts, and a special meaning of accrual, make governmental accounting differ materially from commercial accounting. These characteristics are not only absent in commercial accounting but there the ascertainment of profit and loss is considered a primary objective. Further emphasizing these differences is the strength of added legal considerations in governmental accounting.

Since governmental financial activities differ from commercial financial activities by their very nature, the accounting for the two must differ. It is wrong to assume that something that is right for one situation is necessarily right for another. In fact, if the second situation is sufficiently different from the first, it necessarily has different requirements. The fact that governmental and commercial accounting are both accounting does not mean they have to be alike.

It would be misleading to apply the identical accounting techniques to the two fields of governmental and commercial activities. Accounting can serve only if it communicates the particular nature of the organization on which it is reporting. To the extent that there are mutually similar areas in the two fields, like accounting should prevail. But beyond this it is a mistake to claim that governmental and commercial accounting should be the same. Instead of trying to make them alike, emphasis should be placed on why differences in the two areas are necessary.

Some literature has included criticisms of these differences, without recognition of the character of the two fields and thereby the justifications for the differences. Such criticism is mainly directed at governmental accounting under the allegation that it should be like commercial accounting. Governmental accounting can perform its task only by being different in certain important respects from commercial accounting.

Application of Principles. The foregoing principles, although drafted with specific reference to municipal bodies,

constitute a broad basis for the development of the accounting procedures of all public bodies. They should not be looked upon as binding to the letter of their content or as inflexible with respect to varying conditions. "An accounting principle," says the American Institute Committee on Terminology,[1] "is not a principle in the sense that it admits of no variation, nor in the sense that it cannot conflict with other principles." In the wide range of size and complexity of governmental bodies, certain variations are bound to arise. Equally good results are achieved by different methods of approach. A principle or standard generally may be looked upon as correct but may not have been put into practice on a great scale. It does, however, constitute a measure against which actual practices may be judged.

Documents and Records. Whereas principles constitute the basis upon which an accounting system is to be built or measured, documents and record forms constitute the primary means by which principles are put into action. Consequently they play an important part in every system. However, they may vary greatly to conform to local conditions and individual ideas and in accordance with different sizes of governmental bodies and with the volume of transactions. In many instances, they are advantageously kept on machines, whereas in others pen and ink records suffice. Numerous types of machines offer different methods of handling forms and producing records.

In this volume it has seemed best to confine the discussion to basic principles and procedures, without undertaking to describe and illustrate all the various forms needed for complete recording. Transactions are set forth in journal entry form only, even though in practice the majority of such entries would be made in special registers for the different types of transactions.[2] Illustrative accounts are

[1] American Institute of Accountants: Research Bulletin 7, November, 1940.

[2] For illustrations of forms needed for a complete municipal accounting system, see Lloyd Morey and Orval W. Diehl, *Municipal Accounting—Principles and Procedure,* 1942.

shown for the General Ledger, covering essential transactions of a typical character. Obviously not all possible transactions which may arise are included, but only those that are generally common in most governments. Certain important subsidiary ledgers also are illustrated.

Statements and Reports. The ultimate objective of every accounting system is to produce information about financial operations and conditions and to present that information in a form that will be useful for management and for public consumption. Financial statements, therefore, form a vital part of the procedure. The form of such statements and their relation to the accounts are matters of prime importance.

In this volume, forms of essential financial statements are frequently presented with illustrative figures taken from the accounts that are exhibited. The manner in which these statements are brought together ultimately in periodical financial reports is also described. Only as the relation between the records and the financial statements is clearly understood and maintained will the full significance of the accounts themselves be realized.

The statements presented include only the principal accounts, those more commonly found. The accounts listed are those usually appearing in cities, although often found, perhaps with some variation, in other governments. For a more complete illustration of actual conditions, reference should be made to the published financial reports of various governmental bodies. A brief list of reports especially suitable for this purpose is given at the close of the book under Selected References.

CHAPTER III

FUNDS

Purpose of Funds. One of the most distinctive features of public financial procedure is the use of various *funds*. This results from the fact that many activities are financed solely from specific revenues. Money is raised by tax levies or by bond issues to be used only for specific purposes. Grants are made by superior governments, or by gifts received from individuals, to be used only for certain purposes or in certain ways.

Separate funds are established in order to make certain that revenues or other receipts, restricted as to the manner or object of use, are handled and applied only in accordance with these restrictions. This procedure has a far-reaching effect on the accounts and financial reports.

Meaning of Fund. A fund, as defined by the National Committee on Municipal Accounting, is "a sum of money or other resources (gross or net) set aside for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations, and constituting an independent fiscal and accounting entity." [1]

A fund is not merely money. It consists of all resources designated for use for a particular purpose only. These resources may include assets other than cash, such as taxes receivable or securities. They may also include resources other than assets, such as anticipated revenue from taxes authorized but not yet levied.

The resources of a fund are earmarked for a particular purpose from the time they are created. That purpose may be to meet the expenditures necessary for a specific activity, department, or enterprise, such as a park, school system, or hospital. The purpose may be to earn, by investment of the principal, an income that may be used for some defi-

[1] National Committee on Municipal Accounting: *Municipal Accounting Statements*, 1941.

nite object. The purpose may be one that serves the public in general, or that is for the benefit only of certain individuals, as in a pension fund.

A fund may be created by constitution, statute, ordinance, resolution, or by administrative order. The method of creation affects the degree of freedom with which the fund may be administered. If it has been created by the act of a superior body, the provisions of this act must be followed until modified by that body. If it has been set up by administrative order, it can be altered in the same manner.

The entire resources of a fund may be available at a given date for the purposes of the fund, or some of them may be obligated. In the former case, the gross resources constitute the fund's surplus, whereas in the latter case the surplus represents only the net excess of resources over obligations. Obligations may consist of actual liabilities, such as accounts payable, to be paid out of the fund's resources; of encumbrances, such as orders and contracts not yet filled but to be paid by the fund when completed; and also of appropriations not yet encumbered.

It is essential to distinguish between "fund" and "appropriation." The former represents the creation of resources. The latter is a separate action, usually related to the budget, granting authority to expend part or all of the resources of a given fund. An appropriation, therefore, is a part of a fund.

Effect on Accounts. Each fund, as the definition indicates, is a distinct financial and accounting entity. In accounting for funds, the complete record of the assembly and application of resources from the time the fund is created must be shown separately. A separate self-balancing group of accounts is required for each fund. In these accounts are included all resources and obligations, all assets and liabilities, and all accounts needed to show the revenues and expenditures of the fund. The excess of debit balances over credit balances at any time is the fund's surplus or principal, or its deficit if the reverse is true. The transactions of each fund are distinct and complete within themselves.

The result of this condition is that the use of funds results in the classification of all accounts by funds in separate self-balancing groups. Each fund has a distinct and complete series of transactions and a complete set of accounts balanced within itself. Statements of revenues and expenditures or of operations are distinct for each fund. Each fund has its own balance sheet. No consolidations or eliminations between funds may properly be made, and no consolidated statement is correct which does not now show the assets, liabilities, operations, and surplus or deficit of each fund distinctly.

The Balance Sheet presented in Chapter XIX illustrates the application of this principle.

The application of all assets to the funds to which they belong does not necessarily require a physical segregation of the assets themselves. If the accounting system, for example, shows correctly the amount of cash belonging to each fund, it is not essential that a separate bank account be maintained for each fund. Instead, a consolidated bank account may be maintained, the accounts indicating at all times the amount of the bank balance applicable to each fund. The balance of the bank account at all times should be equal to the total of the bank balances of all funds. The same may be true as to investments. Funds may be pooled, for example, for investment purposes, and securities purchased may represent the consolidated investments of several funds. The accounts of each fund would then show the share of that fund in the total investment.

Fund Procedure. Three distinct steps may be recognized in the creation and operation of a fund. All are essential to secure its complete functioning. These steps are

1. The authorization of resources which are to constitute the fund, and designation of the purpose to which they must be applied; for example, a special tax authorized for a city hospital.
2. The collection of the resources; with a tax levy, this means the levying of the tax and collecting it in cash.
3. The authorization for expenditure of the fund, and its expenditure in accordance with this action.

Authorization of Resources. A fund may be created by constitution, although this is rarely done. It may be created by legislative act, such as an act of Congress, a state legislature, or a city council. The majority of funds are established in this manner. Federal and state legislative bodies, in making grants to governments which are receiving aid from them, frequently indicate conditions that require the creation of separate funds for these grants. State legislatures, in specifying the duties and powers of local governmental bodies, often require separate funds for various types of revenue or other receipts.

Funds may also be established by administrative order. Generally this is unnecessary if an adequate budget and accounting system is in use. In fact, it may be said that many of the special funds now required, as a result of separate tax levies for various purposes by the same government, might well be consolidated into one fund, if the proper legislative body would so authorize, and the budget used for the needed control.

There are a number of methods by which resources for various funds are established. The following are the most common:

1. Establishment of a certain source of *revenue,* to be used for a specified purpose; for example, a special tax levy or a special fee, the proceeds of which are for use only for a stated purpose; such an action must be had by the legislative body, and in some instances must be confirmed by popular vote.
2. Authorization of a *bond issue,* the proceeds of which are to be used for a stated purpose, such as a new improvement; in nearly every instance, other than in the federal government, a vote of the people is necessary to make this process effective.
3. A *special assessment* to cover the cost of a certain improvement or service, this assessment made chiefly against the properties or citizens served; this action while made initially by a legislative or administrative body ordinarily must be confirmed by a judicial body.
4. A *grant* by one government to another; such as the federal government to a state, municipality, or educational institution,

or a state to a municipality or other local government; such a grant may be expendable, either for some operating purpose or for a permanent improvement, or it may be for an addition to a permanent fund, such as an endowment fund.

5. A *gift* or *bequest* by a private party or organization; such an item also may be either expendable or for endowment, the income only to be expended; if it is expendable, it may be unrestricted as to its use, or it may be limited to some definite purpose.

6. The *transfer* of money from one fund to another; for example, a sum may be transferred from the General Fund to create a working capital fund.

Actions of the types just described do not always constitute the establishment of a new fund. This result follows only if the amount derived from a given source is designated for use only for a special purpose. If no restriction of this kind has been made, the money goes into the General Fund and may be used with other unrestricted income for any purpose for which the particular government may expend its money.

There also may be other receipts than those indicated, which conceivably may result in separate funds; for example, deposits representing a guarantee for performance of some obligation; proceeds from sale of assets; and receipt of money to be held for others, such as the collection of taxes for a city by a county. Usually these items are handled through funds already established, instead of being set up in separate funds.

Collection of Resources. Fund resources are either cash or items that will become cash or may be reduced to cash. The collection of the resources of a fund begins with the levying or assessing of taxes and other charges. Cash is then collected from these charges or, in other instances, from the sale of bonds or other property. All cash collected is deposited promptly in the treasury, from which it may be disbursed only upon specific authority.

Fund Expenditure. The expending of a fund requires a separate authorization from that creating its resources. The

procedure creating a fund earmarks its resources for a specific use. They may not be used, however, until an authorization to that end is accomplished.

The first step in the expenditure of a fund is an appropriation. This is made by the legislative body having authority to make funds available for expenditure. It is followed by encumbering the appropriation through the placing of orders or contracts. As goods are received or services rendered, vouchers are prepared and certified. The item then becomes a liability of the fund. A warrant against the treasury is then issued in payment of the voucher, and the last step consists of the payment of the warrant.

Each step in this process must be recorded in the accounts of the fund.

Kinds of Funds. Funds are of different kinds, depending on various conditions relating to them. They may be classified in the following ways:

1. As to their ownership.
2. As to whether or not they are expendable.
3. As to the source of their income or their purpose.

Classification by Ownership. Governments operate in the capacity of both owner and trustee. As owner, they hold certain funds which may be said to belong to them. They also hold funds of which they act only as trustee or custodian. Hence governmental funds may be classified from this standpoint as follows:

1. *Public Funds.* In this group are included all funds that are available for expenditure for public purposes, that is, for the benefit of the entire public concerned. Examples are the General Fund, special revenue funds, bond funds.

2. *Trust Funds.* These funds arise from public or private sources, but are for the benefit of individuals or groups of individuals, or are held subject to certain restrictions. Examples are pension funds, endowment funds, income of restricted endowments, restricted gifts. Special assessment funds and sinking funds are of the nature of trust funds, although not generally so classified.

Certain funds are held by governments as agents. Examples are deposits and taxes collected for other governments. These funds are spoken of as agency funds. Frequently they are grouped with trust funds for accounting and reporting purposes.

Classification As to Expendability. Funds are either expendable or non-expendable. They are expendable when their entire resources may be expended or used up in their operation. They are non-expendable when their principal or capital must be maintained intact. If non-expendable funds produce income, the income usually constitutes an expendable fund.

Expendable funds include those arising from revenue sources, from bond issues, from special assessments, from grants, gifts, and bequests when the sums received are expendable, from deposits and other sources. The group includes utility funds and sinking funds.

Non-expendable funds are of two classes.

1. *Working Capital* or *Revolving Funds.* They are created to provide capital for some enterprise or operation. They include imprest funds for petty expenses or working cash purposes, funds of manufacturing and other self-supporting operations, funds for stores or service departments, and loan funds when the principal may be loaned. The initial capital is provided in cash by transfer from some other fund by loan or by gift. It is first disbursed for expenses, for acquisition of other assets, or for loans. Reimbursement is then secured from other funds, from the sale of the assets, or by collection of the loans. Thus it is always intact, in the form of cash, receivables, or inventory.

2. *Endowment Funds.* An endowment fund is "a fund, the principal of which shall be maintained inviolate, the income of which alone may be used."[1] The principal of such a fund is invested to produce income to be used for the purpose for which the fund was established. The income is expendable, being placed in the General Fund if its use is unrestricted, or

[1] National Committee on Standard Reports for Institutions of Higher Education: *Financial Reports for Colleges and Universities.*. (See References.)

constituting a separate expendable fund if it is limited to some special purpose. Endowment funds occasionally have been established from public sources, such as the United States Land Grant of 1862, providing endowments for state universities and colleges. More frequently they are established by private gift or bequest. They are more common in institutions such as universities, colleges, or hospitals, than in other areas of government.

Classification by Source or Purpose. In the discussion relating to authority for setting up funds, reference has been made to some of the principal sources from which funds are derived. The more common ones are

Revenue sources

Taxes of various kinds.

Miscellaneous revenues.

Utility revenues.

(For a fuller discussion of revenues, see Chapter VI.)

Non-revenue sources

Loans, including bond issues, temporary loans, tax anticipation notes, and other forms of borrowing.

Special assessments, which are made against certain property owners to cover the expense of improvements which are considered of benefit to the properties owned by these individuals. (The United States Bureau of the Census treats this item as a revenue, on the ground that the facilities derived therefrom are of general public service.)

Grants from superior governments for endowment. (Grants which are expendable are revenues.)

Gifts and bequests for endowment. (Gifts and bequests for current purposes are revenues.)

Deposits, including sums collected as guarantees and which may be subject to return under certain conditions.

Sale of assets, such as real estate, stores, and securities.

Agency receipts, including items accepted to be held in custody for others.

Transfers between funds.

From these various sources, different types of funds are created and augmented. Some of the different sources require setting up funds of the same type for each item. For

example, special assessments, grants or gifts for endowment, and revenues restricted to specific uses involve separate funds for each individual unit. Loans for specific purposes are handled in the same manner. However, loans may be made for revenue funds, and all general revenues may go into one fund. Unrestricted grants and gifts also go into that fund.

The different types of funds more or less commonly required for all purposes, listed according to their object, are

1. *Revenue Funds.* They include all funds arising primarily from revenue sources. These funds relate to the current operations and activities of government, and their transactions are controlled by the budget. They include

(*a*) The general fund, which is found, under one title or another, in practically every government. In it are placed all revenues and other receipts not by law or contractual agreement applicable to some specified purpose.

(*b*) Special revenue funds, including all funds arising from revenues designated for specific use only. Each fund requires a separate accounting. Examples are: Park Fund, School Fund, Hospital Fund, Library Fund, Sanitarium Fund, Highway Fund, Relief Fund.

Revenue funds constitute the most numerous and most active of all funds.

2. *Working Capital Funds.* They include funds set up to finance some service enterprise or operation, as already described.

3. *Utility Funds.* Included here are funds established to cover the operation and maintenance, and sometimes the construction, of government-owned utilities, such as electric plants, water departments, power dams, transportation systems. A separate fund should be maintained for each utility.

4. *Special Assessment Funds.* The nature of these funds already has been described.

5. *Trust and Agency Funds.* This group includes the following:

(*a*) Non-expendable funds, some of which are for endowment to produce income, and some of which are of the work-

ing capital type to be loaned. In each case the principal is to be maintained inviolate.

(*b*) Expendable funds, in which group are included the income of restricted endowment funds, gifts for special purposes, deposits, and agency receipts for custody only.

6. *Bond Funds.* Included in this group are those funds arising out of bond issues, to be expended for some specific purpose, such as an improvement. Proceeds of special assessment bonds are handled in special assessment funds, and proceeds of utility bonds in utility funds.

7. *Sinking Funds.* These funds are provided by special revenues or by transfer from revenue funds to liquidate the principal of bonds due at some future time.

All these funds are expendable except working capital and non-expendable trust funds. Expendable funds, therefore, are the most extensive, both in number and variety.

Not all these types of funds are used by all governments or necessarily by all units of the same type of government. The types mentioned are needed by the majority of cities of medium and larger size, but some of them will not be used by smaller cities.

Every governmental body or institution has a general fund. Many also have special revenue funds. Working capital funds are found chiefly in larger organizations. Utility funds are found frequently, though not universally, in cities and occasionally in counties, states, or the federal government (though treated in the federal government as an operation of the General Fund). Bond funds are found where debt obligations for specific purposes are authorized by law, and sinking funds where obligations mature in full at future dates. Trust funds may be found in any government, but endowment funds are more frequent in institutions.

Accounts of Fixed Assets and Liabilities. As already indicated, fixed assets, although acquired out of the resources of funds, are not available to meet expenditures, and long-term liabilities are not payable out of current resources. Consequently fixed assets and long-term liabilities are not

included in most instances among the resources and obligations of funds. General fixed assets and liabilities are set up in one or more separate groups, as described in Chapter XVIII. Fixed assets and liabilities of utilities are carried in the accounts of those funds. Special assessment bonds appear in the accounts of special assessment funds because they are to be liquidated out of the assets of those funds. Except in those funds where fixed assets and liabilities are a part of the fund accounts, it is not correct to debit Fixed Assets and credit Accounts Payable or Cash, or to debit Cash and credit Loans Payable, as is done in commercial accounting. Accounting for the asset and for the liability in such cases involves separate entries from those relating to the receipt and disbursement of cash. This requirement will be more fully explained later, particularly in Chapter XVIII.

Accounts of Funds. Each fund must be accounted for in such a way as to preserve its complete identity and keep it distinct from all other funds. Each fund is a separate accounting unit, having such accounts as are necessary to exhibit fully its operation and condition. These accounts form a self-balancing group. Consequently in a governmental accounting system, there is not merely one cash account, but as many cash accounts as there are funds. The same is true of other assets and of other liabilities. Each fund also has its own accounts of revenue and expenditure, and its own surplus, principal, or balance account.

Revenue funds also include budgetary accounts, consisting of estimated revenues, appropriations, and encumbrances. The excess of such a fund's assets and budgetary resources over its liabilities and budgetary obligations represents its unappropriated surplus or the estimated sum still available for appropriation. At the end of a fiscal period, all budgetary accounts, as well as accounts of revenues and expenditures, are closed, and the result is a real surplus or, if liabilities exceed assets, a deficit. The surplus items of various funds may not be consolidated, and the equity in

fixed assets must not be consolidated with surplus represented by expendable assets.

The term "surplus" is appropriate only in revenue funds or in certain other funds where sums accumulate that are unrestricted as to use within the respective fund. It should not be employed except with some qualifying term, such as "unappropriated" surplus.

Increasingly there is doubt as to whether the term should be used at all. In commercial accounting, where it has been generally in vogue, its use is much curtailed and even seriously questioned in many quarters. A satisfactory replacement of the term, however, especially in governmental accounting, has not yet been found. A more accurate and complete title for it would be "Excess of the Fund's Assets and Budgetary Resources over its Liabilities, Budgetary Obligations, and Reserves." The authors have retained the title "Unappropriated Surplus" in the accounts of those funds where it may properly be used, but it should be understood that its meaning is that just expressed.

A fund's surplus may be increased by its revenues or by non-revenue items which do not increase its liabilities or reserves. It is decreased by any expenditure, whether for current purposes or for capital purposes. A transaction that affects two or more funds must be reflected by a complete double entry in *each* fund. A debit may not be made in one fund and a credit in another without corresponding credit and debit in the other respective fund.

Procedure of Different Funds. Although all funds have certain characteristics in common, each of the various types of funds has certain features peculiar to itself. The study of governmental accounting is concerned chiefly with the operation of the different types of funds, and with the accounts necessary to reflect these operations.

Charts II and III presented at the end of this chapter indicate the various types of funds that are to be studied. Chart II presents a general classification of funds, based on the sources from which they are derived. It indicates the status of ownership of the various funds and the condition

CHART II
CLASSIFICATION OF FUNDS
BY OWNERSHIP AND EXPENDABILITY

SOURCE OF INCOME	OWNERSHIP		EXPENDABILITY		
				NON-EXPENDABLE	
	PUBLIC	TRUST	EXPENDABLE	WORKING CAPITAL	ENDOWMENT
Revenues Taxes	×		×		
Miscellaneous	×		×	×	
Utility	×		×		
Loans	×		×		
Special assessments		×	×		
Grants	×		×		×
Gifts and bequests	×	×	×	×	×
Deposits		×	×		
Sale of assets	×	×	×		×
Transfers	×		×	×	
Agency receipts		×	×		

CHART III
CLASSIFICATION OF FUNDS BY PURPOSE

SOURCE OF INCOME	REVENUE		WORKING CAPITAL	UTILITY	SPECIAL ASSESSMENT	TRUST AND AGENCY		BOND	SINKING FUND
	GENERAL	SPECIAL				EXPENDABLE	NON-EXPENDABLE		
Revenues Taxes	×	×							×
Miscellaneous	×	×	×						
Utility				×					
Loans	×	×		×	×			×	
Special assessments					×				
Grants	×	×				×	×		
Gifts or bequests	×	×				×	×		
Deposits				×		×			
Sale of assets	×	×	×	×	×	×	×	×	×
Transfers			×						
Agency receipts						×			

as to expendability, which is a very important factor in their operation. Chart III indicates a classification by purpose, again based on their sources. This classification is followed in order in the chapters that follow, and each type of fund indicated in this chart is discussed in a separate chapter or chapters. An additional group of accounts is required for fixed assets and liabilities. This group operates and is accounted for in the same manner as a fund, although it lacks certain of the aspects of funds.

For some purposes, funds of a similar type are grouped for convenience in accounting and reporting. This is true, for example, of special assessment funds, trust funds, and sinking funds. Each fund, however, continues to be a distinct entity.

The accounts of all funds, as well as of fixed assets and liabilities, may be brought together in a single combined balanced sheet, as illustrated in Chapter XIX. In any such form, the accounts of each fund or group of similar funds must be shown clearly and separately, its debit balances equaling its own credit balances.

CHAPTER IV

THE BUDGET AND BUDGETARY ACCOUNTS

Place in Accounting System. One of the fundamental problems of public finance is the problem of limitation. All governmental bodies and officers having to do with the raising and expending of public funds act under certain restrictions, their authority being limited by constitution, statute, or administrative regulation.

In order to enforce effectively the various limitations thus prescribed, the "budget system" of finance and accounts has been developed. Through it, definite limitations on the amounts of revenues to be raised and on the sums that may be expended for the respective governmental purposes are set. Its use has become general in all kinds of governments, and its importance and effectiveness are recognized everywhere. It is generally regarded as the most effective mechanism for both legislatures and administrators in planning, directing, and controlling activities and operations. Furthermore, it gives voice to the fiscal policy of a government, and thus indicates in advance what plan is proposed by those in power, and provides an opportunity for open discussion and criticism of that plan.

The budget system provides that authorization for raising revenues and expending all revenue funds be made on the basis of a comprehensive presentation of all financial facts of the government and that accounts be kept in such a manner as to exhibit at all times the relation of the actual revenues to the estimates and of the actual commitments and expenditures to the authorizations.

Definition of the Budget. The budget is defined as "an estimate of proposed expenditures for a given period and

the proposed means of financing them."[1] In its broadest form, it is a fiscal document exhibiting the estimated and actual revenues and expenditures of previous periods, the proposed appropriations for expenditure for the succeeding period or periods, and the proposed sources of revenue or receipts from taxation and from miscellaneous sources to meet those appropriations, with all necessary supporting data and information. In this form it is known as the "budget document." In its narrow sense, as an accounting document of a given period, the budget is an authorization to make expenditures for a given governmental body and fiscal period and to provide the means of financing them, as expressed in appropriation and revenue acts, ordinances, or resolutions. The budget, therefore, deals with two major subjects, revenues and expenditures.

The budget may be said to constitute:

1. A financial program.
2. An essential aid to legislative control over finances.
3. A working guide to the administration of finances.
4. A basis for the accounting system.
5. An assurance to the public of the orderly handling of financial matters and a source of public information as to these matters.

Essentials of Good Budget System. Four phases of the process of public budgeting may be discerned.

1. Preparation of the budget; in most instances this is recognized as the function and responsibility of the executive.
2. Approval of the budget; this involves passage of various revenue and appropriation acts by the legislative body, and their approval by the executive.
3. Operation of the budget; this involves raising the revenues necessary to cover expenditures, incurring obligations in the form of orders and contracts, and making expenditures from appropriations; it comprehends such control over these transactions by the executive and central administrative organization as may be authorized or required, including in some in-

[1] National Committee on Municipal Accounting: *Municipal Accounting Statements,* 1941.

stances release of appropriations through allotments or by approval of work programs.

4. Accounting for budget operations; this covers the keeping of accounts, rendition of reports showing the progress and results of the carrying out of authorizations, and verifications of these reports by audits.

To make a budget system function effectively in all these areas, certain essential features of procedure and content are evident.

1. The budget should represent a comprehensive program covering all funds and activities which properly may be brought under it. (All general and special revenue funds should be included, as should also utility funds, subject to limitations later stated, and expendable trust funds. Usually other funds are not covered in the budget.)

2. The budget should provide adequate and dependable means of financing the proposed expenditures.

3. The budget should be based on accurate estimates of revenue and should provide for all essential items of expenditure on the basis of the most accurate estimates possible, with a reasonable margin for contingencies. Estimates of revenue should include adequate allowance for slow collections or for items which may never be collected.

4. The budget document should contain comparative data for the previous year or years to such an extent as to indicate trends and significant changes.

5. The classification of items in the budget should conform as closely as possible with the accounting classifications. The same basis of accounting should be used in both; that is, if a cash basis is used in the accounting, the same plan should be used in making estimates of revenue and expenditures for budget purposes; if an accrual basis is followed in the one, it should be followed in the other. Since depreciation on general property should not be entered in the accounts or reported as an expense of revenue funds, it should not appear as an item in the budget.

6. The budget should be prepared by or under the direction of the chief executive: the President of the United States for the federal budget, the governor of a state, the mayor of a city, the executive head of an institution. This officer should trans-

mit the budget to the legislative body with an explanatory message.

7. There should be adequate opportunity for a public discussion of the budget.

8. The budget as passed by the legislative body should be in usable form not only as to its arrangement but also as to the method of appropriation. Excessive detail in appropriation acts ordinarily is undesirable.

9. After the budget is passed, there must be effective means of controlling its operation. Regardless of the accuracy or completeness of the budget, it is ineffective as a financial instrument unless it is followed. Responsibility for initiating expenditures from each appropriation must be fixed. Centralized checking of proposed expenditures against authorizations and available balances should be provided. Purchasing should be centralized to the fullest extent possible. Restricting expenditures to periodical allotments or to approved work programs may be desirable.

10. The budget, when passed, should be entered in the accounts in such a way as to make available currently at all times information on the relation between estimates and actual results, both as to revenues and as to expenditures. From these accounts, periodical reports should be prepared for the information of department heads and of administrative officials. In cities and counties, where the governing body holds frequent meetings, reports also should go to them regularly. In other governments, reports should be made at the close of each fiscal period, showing the results of budget operations in comparison with authorizations and estimates.

Not all these conditions directly affect the accounting procedure. However, because of the close relation between the budget and the accounting system, and because the accounting department usually is actively concerned in the preparation of the budget, they are all matters of definite concern from an accounting as well as from a general administrative standpoint.

Budget Procedure. It is not essential in this discussion to go into details of budget procedure because this study is primarily concerned with the budget as it relates to the

accounts. A brief outline of the steps incident to the preparation and adoption of the budget as they are followed in the most representative plans of budget procedure now in force, however, is not out of place.[1]

1. The first step in budget procedure consists of the preparation of *budget estimates,* composed of statements exhibiting the actual revenues and expenditures of previous periods and the proposed revenues and appropriations for the period which the budget covers. These estimates are of two classes:

(*a*) General, including estimates of revenues and estimates of expenditures necessary for general purposes, including interest on and the retirement of debt obligations, and other fixed and unavoidable expenditures, prepared by the financial officer.

(*b*) Departmental, consisting of the reports and estimates of the respective departments as to their needs for appropriations, prepared by department heads.

2. The next step in the budget procedure consists of the preparation of *budget summaries* by the budgetary officer. This work is carried on sometimes by the financial officer, sometimes by a special budget division under the chief executive, and occasionally by an agency of the legislative branch, such as a committee of the state legislature or a city council. Under any one of these plans, the accounting department should furnish the data needed, covering past budgets and operations. In this step the estimates of the departments are drawn together and summarized, and a general summary of the entire budget is exhibited in balanced form.

3. The proposed budget or "budget estimate" at this stage goes to the chief executive for *executive review* and *revision.* It is usually the function of the executive to review the budget and transmit it to the legislative body with

[1] For a very complete review of the considerations and procedures of budget preparation, see "Municipal Budget-Making," in *Municipal Finance and Administration,* International City Managers' Association, Chicago, 1949.

his recommendations. In this task usually he is aided by the financial officer or by a special division.

4. The resulting tentative budget, in the form of the "budget document," including the recommendations of the executive, now goes to the legislative body, for *legislative consideration.* Since all authority for raising revenues and expending money rests with the law-making body in each government, this step in the budget procedure is of great significance. Presentation to that body frequently involves an extended run of hearings before committees and subcommittees and investigations by these committees.

5. In its final stage a budget is dissolved into one or more *appropriation and revenue acts,* which, when passed by the legislature and approved by the executive, become laws. The summary of these acts is in reality the *budget* for the fiscal period and is the basis for the budget accounts that must be kept.

Budget Form and Analysis. In the preparation of budget estimates, the following essentials as to form and material should be followed:

1. Revenue estimates (see also Chapter VI):
    (*a*) Analysis by funds (see Schedule A).
    (*b*) Classification by source (see Schedule B).
    (*c*) Comparison with former years.
2. Appropriations and Expenditures (see also Chapter VIII):
    (*a*) Classification by funds (see Schedules A and C).
    (*b*) Classification by departments (see Schedule C).
    (*c*) Classification by object of expenditure (see Schedule C–1).
    (*d*) Comparison with previous periods.

The analysis of the budget by funds is essential in view of the fact that certain revenues by nature accrue to certain funds, and appropriations must be designated as to the funds from which they are to be paid. Any number of appropriations may be made from a given fund, provided that they are all in accord with the purposes of the fund. For ex-

ample, appropriations may be made from the School Fund for "salaries," "supplies," or "equipment," of *schools*.

In the classification of revenues by sources, the most important item is very often *taxes*. Other sources of revenue are fairly definite as to amount, and the sum to be raised by taxes consists of the difference between the amounts appropriated and the total of other revenues. It is on this basis in local taxing bodies and many state governments that the "tax rate" is determined, subject, of course, to any limitations as to maximum rate already fixed.

In the analysis of appropriations, the "department" is usually the unit. Appropriations are commonly made to departments. The departmental classification will vary in different governments and institutions. There may also be divisions or bureaus in the various departments which should be stated separately. Certain types of expenditures, such as interest, are stated as specific items not under any department.

The budget estimate may, and frequently does, provide also for a complete analysis of the past and proposed expenditures of each department under *object* headings, such as salaries (itemized), office expense, travel, repairs, supplies, and equipment. Further discussion of classification of expenditures is given in Chapter VIII.

Performance Budget. Much emphasis is now being placed on the value of what is described as a "performance budget," in contrast to a budget based on either the organizational units or the objects of expenditure alone. The performance budget, as defined by the Hoover Commission,[1] is: "A budget based on functions, activities, and projects . . . which would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired, such as personal service, supplies, equipment, and so on. . . . The all-important thing in

[1] *Budget and Accounting,* Vol. 4 of the Reports to the Congress of the Commission on Organization of the Executive Branch of the Government, U. S. Government Printing Office, 1949.

budgeting is the work or the service to be accomplished, and what that work or service will cost."

Such a budget requires, in both estimates and accounting, a breakdown in terms of the purposes, programs, and activities of the organizational unit. These may vary from period to period and, of course, would not be uniform as to the various divisions of the organization. In each instance feasible, the estimates should be supported by the detail of work to be done in terms of appropriate units of production or intended accomplishment, the cost of which is based on unit costs determined from past experience if possible.

All of this means greater emphasis upon and use of "cost accounting" in government, a field of development yet in the formative stage for the most part, but offering possibility of much service in budgeting and financial management. In a fully developed cost accounting program, general and indirect costs would be allocated to each operating department, activity, or project, instead of being shown as separate items in the manner commonly followed in budgeting and expenditure reporting at the present time. To make the system complete, an amortization of capital expenditures and distribution of these expenditures to operating departments would also follow. Expenditure accounting would also of necessity be on a full accrual basis.

Another essential feature of a cost accounting system now generally lacking is an appropriate cost unit or units for all the various activities. Only in a few areas, such as public works, hospitals, and utilities, have such units been established. They are necessary not only for a complete cost accounting system but also for predictions of programs and review of accomplishment.

Form of Appropriation. It is not necessary, however, that appropriations in their final form be made for each specific item. When so made they are spoken of as "itemized appropriations." When the total sum is appropriated to a given department, activity, or project, to be expended for the various purposes at the discretion of the department

head, the appropriation is known as a "lump-sum appropriation."

Both methods of appropriation have been followed in various instances. It is believed, however, that the most satisfactory form of appropriation, from all standpoints, is the lump-sum appropriation, based on itemized estimates. Under this plan the appropriation account for each department or activity shows the appropriation in one sum, but the accounts are so kept as to show constantly the distribution of expenditures under the various expenditure headings. Material deviation from the original estimate, even though legally possible, should not be permitted without proper approval.

Budget Schedules. Suitable exhibits and schedules are needed for the proper presentation of every budget. The exact form and arrangement will vary with the kind and size of the governmental body.

Both the revenue and the expenditure sections of the budget are presented first in summary form, followed by detailed schedules of the various branches of government, supported further by detailed analyses of the individual departments. The brief schedules presented herein, Schedules A, B, C, C–1, and C–5, serve merely to illustrate the essential features of a budget exhibit.

SCHEDULE A—BUDGET SUMMARY

	† Balance from Previous Year (If Any)	Estimated Revenues (Schedule B)	Appropriations (Schedule C)	Unappropriated Balance
1. General Fund		$75 000	$72 500	$2 500
2. A Special Revenue Fund *		50 000	49 000	1 000
Totals		$125 000	$121 500	$3 500

* Each special fund is to be stated separately.
† Use this column only if such balances are included in the budget. See discussion.

SCHEDULE B—ESTIMATED REVENUES

	Items	Fund Totals (Schedule A)
1. General Fund *		
a. Taxes	$50 000	
b. Licenses	10 000	
c. Fines	10 000	
d. Service Charges	5 000	$75 000
2. A Special Revenue Fund		
a. Taxes	40 000	
b. Fees	10 000	50 000
Total, to Schedule A		$125 000

* For a more complete classification of revenues, see Chapter VI.

SCHEDULE C—APPROPRIATIONS

	Items	Fund Totals (Schedule A)
1. General Fund		
a. General Administration (Schedule C–1)	$ 5 000	
b. Public Safety (Schedule C–2)	30 000	
c. Public Welfare (Schedule C–3)	15 000	
d. Public Works (Schedule C–4)	15 000	
e. Education (Schedule C–5)	7 500	$72 500
2. A Special Revenue Fund		
a. Recreation (Schedule C–6)	$15 000	
b. Education (Schedule C–5)	34 000	49 000
Total, to Schedule A		$121 500

SCHEDULE C-1—APPROPRIATION ANALYSIS

(By Object)

General Fund	General Administration	
Purpose	Items	Totals
1. Salaries		
a. Chief Clerk	$2 500	
b. Secretary	1 200	$3 700
2. Office Expense		400
3. Travel		200
4. General Supplies		200
5. Repairs		
6. Equipment		500
Total, to Schedule C		$5 000

Additional schedules in the form of Schedule C-1 are required for the public safety, public welfare, public works, and recreation departments. In the education department, it is noted that appropriations are made to this department from two funds. The details under both funds should appear in one schedule for the department, such as Schedule C-5.

SCHEDULE C-5—APPROPRIATION ANALYSIS

EDUCATION DEPARTMENT

(By Activity)

Activity	General Fund	Special Fund	Total
1. Instruction		$24 000	$24 000
2. Recreation		6 000	6 000
3. School lunches	$3 000	1 000	4 000
4. Pupil transportation		3 000	3 000
5. Adult services	4 500		4 500
Total	$7 500	$34 000	$41 500

Explanation of Budget Schedules. The Budget Summary, Schedule A, is intended to present a summary of the entire budget, showing the Estimated Revenues and the Appropriations by funds. Each fund with which the budget is concerned should appear as a separate item in this summary. In the first column is shown the Surplus, if any, remaining in the fund at the close of the previous fiscal year and therefore available for appropriation during the year covered by the budget. In the second column the Estimated Revenue of each fund for the new year, as shown in Schedule B, is entered. The amounts in this column added to those in the first column, if any, indicate the estimated amount available for appropriation. In the third column are entered the total Appropriations made from each fund, as per Schedule C. The fourth column then shows the Balance remaining unappropriated or the difference between the sum of Columns 1 and 2 and of Column 3.

Whether the balance of Unappropriated Surplus from the preceding year is applied to the budget is a matter of policy. As a general principle, the actual revenues of a given year, not including previous balance, should equal or exceed the regular, recurring expenditures of that year. Otherwise, the governmental agency will find itself with an established budget in excess of its continuing resources. It is definitely preferable to limit the use of any accumulated balances to special and non-recurring items. Although in general it is not good policy for a governmental body to accumulate a surplus, if the body has to resort to borrowing in anticipation of the receipt of revenues, such a surplus helps to reduce or eliminate such borrowing.

The fact that the objective of a governmental activity should not be that of accumulating a surplus is implied in its "non-profit" character. Most of its revenue comes from tax levies. Taxpayers should not be assessed beyond the amount necessary to meet current expenditures and provide reasonable working capital. Funds raised by a government are to be spent, not saved, hoarded, or accumulated.

Schedule B is a detailed exhibit of the Estimated Reve-

nues, in which the amount anticipated from each *source* under each fund is shown. The totals for each fund are carried into Schedule A. Schedule C shows the individual appropriations under each fund, each of which is in turn supported by a detailed statement giving an analysis of the appropriation to the respective departments, indicating the purposes for which the appropriation is made.

If any part of the expenditures included in the budget is to be met by borrowing, or through means other than from surplus or from revenues, provision must be made for these items in the budget schedules.

These schedules, of course, show the budget in its final form. In its earlier stages the schedules should include columns showing comparative figures of previous years and columns in which the revision or modification of the various items in the successive steps of budget procedure can be entered. The classifications of revenues and expenditures should follow standard classifications for the type of government to which the budget relates and for the departmental organization of the particular unit.

The budget in its final form becomes the basis for the accounting for the period that it covers. The accounts for revenues and expenditures should be classified in accordance with the budget and kept in such a way that the actual operations, as to both revenues and expenditures, can be constantly compared with the budget. In the matter of expenditures, the limitations set by the budget can be enforced only through the use of information derived from properly kept accounts. These accounts must operate in such a way as to prevent any overdraft on any budget appropriation. This is one of the most important purposes of governmental accounts, and they should be designed and maintained in such a way that this function will be fully and constantly met. This necessitates, among other things, entering of all orders or contracts as encumbrances of the respective appropriations.

Contents of Budget. The budget of a governmental body should include all its regular operations, funds, and activi-

ties. The budget of the General Fund includes all activities financed through that fund and all revenues not earmarked for specific purposes. Each special expendable fund other than bond and assessment funds should also be included, each balanced within itself. All utilities and institutions should be included. Working Capital funds ordinarily are not included since their transactions for the most part represent transfers from other funds included in the budget, and the operations vary with the amount of services required.

The Budget Summary (Schedule A) should include all funds covered by the budget and should show the status of each fund separately. The budget is of greatest importance with respect to revenue funds, that is, the General Fund and special revenue funds, including funds of institutions. It is these funds that require budgetary control and from which appropriations are made. This part of the budget is frequently called the *general budget.* The remainder of the budget, dealing with trust funds and utility funds in particular, may be termed the *special budget.* Expenditures in this section of the budget are controlled by the amounts of income, rather than by specific amounts of appropriation.

Budgets for utilities must be more flexible than those of other activities. Greater variation in income may take place in these operations, and such variation is more or less directly reflected in the expenditures. Periodical statements, showing the income and expenditures of utilities in relation to budget estimates (in addition to statements showing operating results, as described in Chapter XIII) should be prepared as for any other department. Adjustments in these budgets should be made from time to time as may be found necessary.

Capital Budgets. Treatment of capital projects of a major nature, such as buildings and highways, varies in different governments. In the federal and state governments, such items are usually included in the annual or biennial budgets. In local governments, undertakings of this kind

are often financed by special borrowing in part or in full and do not appear in the regular budget. (See Chapter XVI.) They must be reflected in the budget, however, by suitable provision for interest and amortization of debt.

Capital budgets frequently are set up on a tentative basis for more than one fiscal period, in other words, on a long-term basis. This is desirable because of the long-range nature of such expenditures and because of the formulation of a comprehensive and well-considered scheme. Such a budget does not have significance as an accounting document since it is subject to enactment from year to year with respect to the part finally approved as applicable to each successive period.

In some national governments, and in a few local governments in this country, budgets have been set up on a "dual" basis: the current or *ordinary* budget contains regular operating and maintenance items and an amortization item for long-term expenditures financed by borrowing; the capital or *extraordinary* budget contains expenditures for capital and sometimes for other purposes applicable to more than one fiscal period. Emergency expenditures of a major type are sometimes included under this heading.

This plan has its dangers. There is often a tendency to make the "extraordinary" budget a dumping ground for all sorts of items for the relief of the current budget, even though they are properly chargeable to it. Thus the "balancing" of the budget is achieved only in a fictitious manner, certain to cause trouble in time.

Another problem relates to maintenance and ordinary replacements as distinct from capital outlay. Such items should be covered in the current budget. A capital budget should include only those items definitely increasing investment in permanent property, and, except in the most unusual circumstances, only such items should be financed over more than the current fiscal period.

The whole problem of a "balanced budget" is one of great economic and public importance. The question to be faced often is, When is the budget in balance? This condition is

brought about only when current revenues, collected or reasonably certain of collection without great delay, equal or exceed the following items: (1) all expenditures for current operation and maintenance and for ordinary replacements, both paid and incurred; (2) interest on all indebtedness; (3) provision for the retirement of long-term debt to the extent properly chargeable to the current period. Only when these things are accomplished can the budget of a governmental body for a given period be said to be "in balance."

Forms of Legislative Acts. The form of legislative enactments necessary to carry a budget into effect varies in the different governments.

In the national and state governments, revenues are raised primarily by continuing laws. As long as these laws produce the revenues needed to meet appropriations, no new acts may be required for revenues. The necessary additional acts, therefore, have to do only with appropriations.

In local governments, the budget usually is supported in part by miscellaneous revenues of a continuous nature and in part by taxes levied annually. A tax levy thus must be passed in connection with *each* budget. This means two distinct ordinances, an *appropriation ordinance,* covering all appropriations from both taxes and miscellaneous revenues, and a *tax levy ordinance,* specifying the taxes to be levied and the purposes for which they are to be expended.

Budget Control through Accounts. Merely having a budget does not provide a guarantee against financial difficulties. Its usefulness depends on how carefully it is made and how closely it is followed. To carry out the financial program and the limitations on expenditures provided for by the budget, accounting procedure through which a control can be exercised is essential. This procedure requires that certain accounts, both general and subsidiary, be maintained which will reflect budget operations and conditions at all times. On the basis of these accounts, frequent financial reports can be prepared by which executive and administrative officers and legislative bodies can be informed of

the progress of financial operations and of the state of financial affairs.

This involves particularly the following accounts, or accounts corresponding thereto, in each expendable revenue fund.

Estimated Revenues. This account is debited at the begining of the period with the budget estimate of revenues for a given fund for the ensuing fiscal period.[1] Subsequent changes in these estimates are debited or credited to the account. Separate accounts may be maintained for estimated revenue from (*a*) taxes and (*b*) miscellaneous sources. This plan of procedure is illustrated in this chapter, but in later chapters in the interest of simplicity of treatment only one Estimated Revenues account is employed.

As revenues are realized, either through the setting up of accounts receivable or through collection, Revenues account is credited.[1] In the preparation, during the period, of any balance sheet or other statement of the condition of the fund the total revenues realized as shown by the Revenues account is deducted from the balance of the Estimated Revenues account. If the difference is a debit balance, this sum indicates what portion of the original estimate is not yet realized; if it is a credit balance, it represents the amount by which the actual revenues to date have exceeded the original estimate. In this case, the excess is shown on the right-hand side of the Balance Sheet.

At the end of the fiscal period, Revenues account is closed to Estimated Revenues, and the latter to Unappropriated Surplus. If a government unit wishes to keep the number of its accounts to the minimum, the accounts of Estimated Revenues and Revenues may be combined in the former, in which event the credits to Estimated Revenues represent the revenues of the fund for the fiscal period.

Appropriations. The Appropriations account is credited at the beginning of the fiscal period with the amount appro-

[1] The credits and debits correlative to these entries are shown with illustrative figures in Chapter V and subsequent chapters.

priated for various purposes in the budget and payable out of the particular fund.[1] Subsequent credits or debits consist of additional appropriations or adjustments in appropriations and of other items that increase the amount available for expenditure.

As expenditures are made, they are debited to Expenditures account in the General Ledger and to subsidiary detail accounts.[2] Whenever a balance sheet or other statement of the condition of the fund is prepared during the fiscal period, the balance of Expenditures account must be deducted from the balance of Appropriations account. The difference, which is ordinarily a credit balance, represents the amount unexpended in appropriations of the fiscal period in that fund. Allowance must also be made for outstanding encumbrances chargeable to this balance.

At the end of the fiscal period, Expenditures account is closed to Appropriations, which ordinarily is then closed to Unappropriated Surplus, except as to an amount equal to the balance of Appropriation Encumbrances. The latter amount is carried forward to cover unliquidated encumbrances, definite invoices (or vouchers) for which will be presented for payment at a later time. If a governmental unit wishes to keep the number of its accounts to the minimum, the Appropriations account and the Expenditures account may be combined in the former, in which case the debits to Appropriations account represent the expenditures of the fund for the fiscal period.

Encumbrances. Encumbrances consist of those obligations of a fund that are represented by outstanding orders, contracts, or similar items which are expected to become payable and for which provision must therefore be made. In order to exhibit properly the condition of a fund, it is necessary to show what amount is outstanding in this form. For this purpose, accounts should be kept that will show this information. These accounts consist, for revenue funds, of Appropriation Encumbrances account and Reserve

[1] *Ibid.*
[2] *Ibid.*

for Encumbrances account. (The latter account is sometimes called Unliquidated Encumbrances.) The *estimated* costs of all items for which commitments are made, and which later will be presented in the form of vouchers to be charged to Expenditures account, are debited to Appropriation Encumbrances and credited to Reserve for Encumbrances. When the items are audited for payment, the reverse entry is made in the encumbrance accounts, debits for actual amounts of vouchers being made at the same time in Expenditures account.

The balance of Appropriation Encumbrances account therefore shows at any time the amount of unliquidated encumbrances outstanding against appropriations of the fund. This sum is to be deducted from the *unexpended* balance of Appropriations (Appropriations less Expenditures) account, and the net difference will be the *unencumbered* balance of Appropriations.

The balance of Reserve for Encumbrances shows the amount outstanding in the form of orders, contracts, and similar items, at their estimated costs, and will appear as one of the obligations of the fund in its balance sheet.

All the above acounts must appear as a part of the group of accounts of each revenue fund, since in governmental accounting each fund is a complete entity, requiring for its correct accounting a complete self-balancing set of accounts covering all its resources, obligations, and operations.

Since the admission of budgetary accounts into the ledger does mean the inclusion of unrealized assets and unaccrued liabilities, the governmental balance sheet comes to have a different meaning from the commercial statement. More than existing assets are shown on the resources side, and more than actual liabilities and customary reserves and balances appear on the liability side. But the purpose of the Balance Sheet is to report financial condition, and the condition cannot be ascertained unless the budgetary accounts are included in the statement.

Although budgetary accounts may on the surface seem to be unreal, actually they are real authorizations and

should be thought of in that light. A necessary part of the reporting of the condition of a fund is the showing of information regarding these authorizations. Not only is budgetary information essential to the reporting of condition, it is also a very vital element in maintaining control.

Alternate Methods of Budgetary Control. The foregoing outline of budgetary accounts represents the most complete and comprehensive plan for controlling budget operations through the accounting system. It provides for complete general ledger control of all transactions at every stage. The procedure presented in this volume is based on this plan. However, there are other methods that are used in various places and may be considered, depending on the volume of transactions and on other local conditions. Descriptions of these methods follow.

General Ledger Control of Revenues, Appropriations, and Expenditures, and Subsidiary Ledger Record Only of Encumbrances. This plan is the same as the previous outline as to revenues. It is the same as to appropriations except that no general ledger controls are maintained for encumbrances. Encumbrances are entered in detail in the subsidiary ledger only and are checked periodically against a register or file. The amount of encumbrances of each appropriation is available in the subsidiary ledger, and the total for each fund is determined by taking the total of all accounts of that fund in the subsidiary ledger. In any balance sheet of the fund, the balance of Appropriations, as shown by the General Ledger (Appropriations less Expenditures), is divided as to Encumbered and Unencumbered. As far as individual appropriations are concerned this method gives complete information. The plan is quite satisfactory, even for rather large cities. Its disadvantage is the lack of continuous accounting control over encumbrances, making it necessary to check them frequently in detail.

General Ledger Control of Revenues, Appropriations, and Expenditures, and Register or File Record Only of Encumbrances. This plan provides general ledger control accounts

for estimated revenues, appropriations, and expenditures, and subsidiary accounts for them as well. Encumbrances, however, are omitted from the subsidiary Appropriation Ledger, which then deals only with appropriations and expenditures. The balances shown by it, therefore, are *unexpended* balances and do not allow for encumbrances. For the latter, a register, file, or separate subsidiary ledger is maintained, arranged by appropriations. As orders are placed, entry is made in such a record or dependence is placed on copies filed. When the encumbrances on any particular appropriation are wanted, reference is made to this record. At the end of each month, a statement is compiled in part from the Appropriation Ledger and in part from the Encumbrance Record or file, and the unencumbered balances of individual appropriations as well as totals for funds are determined.

The plan is reasonably satisfactory for smaller cities, but is less reliable and convenient than the other plans, since it does not show readily the unencumbered balances of appropriations without computation.

No General Ledger Control. Under this plan, entries of budget estimates of revenues and of appropriations are omitted from the General Ledger, and subsidiary ledgers and records are depended on entirely for all needed information. The subsidiary procedure may be in the form of any of the foregoing plans. The plan may be followed in very small places but is deficient where any considerable number of accounts or transactions are involved, since it does not provide ready means of check on the accuracy of the accounts and entries.

No fixed rule can be made as to the place where the record of encumbrances can best be maintained. In a local government of moderate size, the central accounting office usually is the best location and serves all needs satisfactorily. In a large city, or in a state or federal organization, it is usually necessary for the department to maintain such a record in order to have information readily at hand as to the status of its appropriations. In such circumstances, it is fre-

quently possible to make this record serve the needs of the central accounting department through reports from departments submitted with requisitions or at regular intervals.

Regardless of the plan of accounting followed as to budgetary control, budgetary figures should be included in every Balance Sheet prepared during a fiscal period.

CHAPTER V

REVENUE FUNDS

Nature. Revenue funds are those expendable funds that are concerned with the creation, realization, and expenditure of revenues. They reflect the operations of the budget. Their accounts, therefore, include all resources considered in and arising from the operation of the budget controlling them and also include all commitments made through the budget or its operation as well as loan transactions necessary to provide cash in anticipation of collection of revenues. Other accounts may be required to cover non-budgetary operations and items of a current nature. Accounts of fixed assets and of long-term liabilities, however, are not commonly included in revenue funds and, if included, must be in a separate self-balancing group distinct from the accounts of current resources, obligations, and surplus.

Resources and Obligations. The principal resources of a revenue fund are

Cash.
Taxes Receivable.
Accounts Receivable.
Due from Other Funds.
Estimated Revenues.

The more usual obligations of such a fund are

Accounts Payable.
Temporary Loans (in anticipation of revenue receipts).
Due to Other Funds.
Reserve for Encumbrances.

Unencumbered balance of appropriations of the fund, as well as any special reserves, must then be allowed for. The

remainder is the fund's *unappropriated surplus,* or difference between its resources and obligations at date. It is the sum that is available for further appropriations for the purpose for which the fund is maintained. If the obligations exceed the resources, a deficit exists, indicating that the estimated resources of the fund at that time are insufficient to meet the commitments made to date.

Budgetary Accounts. As already indicated, the accounts of a government or public institution include not only the usual "proprietary" accounts of assets and liabilities, revenues and expenditures, but also "budgetary" accounts representing the unrealized fund resources and the commitments of those resources.

Budgetary accounts are essential in governmental organizations because the finances of such organizations usually are carried on under a budget system. This necessitates, in the accounting procedure, accounts that control and analyze transactions in accordance with the limitations set in the budget.

As already indicated in Chapter IV, there are other methods for securing budget control which involve simpler accounting procedure and which may be considered satisfactory under certain circumstances. In this volume, however, the presentation is that of a complete plan of budgetary control through the general accounting system.

Budgetary Accounts for Revenues. In accounting for revenues, a general ledger account under *each fund* is carried, known as Estimated Revenues and supported by a subsidiary ledger containing accounts with each item of revenue. These accounts will be debited with the estimated amounts of revenues as per the budget, an account in the General Ledger known as Unappropriated Surplus (for each fund) being credited. As revenues are ready for entry, either when accrued or when collected, depending on the procedure followed, Revenues are credited, Cash, Accounts Receivable, or Taxes Receivable being debited.

To summarize, the entries relating to the revenue estimates from the budget would be as follows:

(1) To enter budget estimates of revenues for a fiscal period[1] (from General Journal)

General Fund

General Ledger (see Budget Schedule A):			
Dr. Estimated Revenues		$75 000	
Cr. Unappropriated Surplus			$75 000
Revenue Ledger (see Budget Schedule B):			
Dr. Taxes	$50 000		
Licenses	10 000		
Fines	10 000		
Service Charges	5 000		

A Special Revenue Fund

General Ledger:			
Dr. Estimated Revenues		$50 000	
Cr. Unappropriated Surplus			$50 000
Revenue Ledger:			
Dr. Taxes	$40 000		
Fees	10 000		

The General Ledger, as well as the subsidiary ledgers, should be separated into sections for the various funds, and all accounts of a given fund should be grouped together in every ledger.

The illustrative entries shown herein and in subsequent chapters show the method of recording transactions of the general fund and of *one* special revenue fund. Similar entries would be required for *every* special revenue fund. The term "special fund" is used for simplicity in this presentation, but in actual practice every special revenue fund would be dealt with separately and would carry an appropriate title.

Separate estimated revenue accounts for *taxes* and for *other revenues,* respectively, may be maintained to advantage in the General Ledger.

Budgetary Accounts for Appropriations. In accounting for appropriations, a controlling account in the General Ledger for all appropriations under each fund is likewise

[1] The numbers in parentheses in this and succeeding chapters are used to identify the transactions as they appear in the general ledger accounts presented in the several chapters.

maintained and is supported by accounts with individual appropriations kept in the subsidiary Appropriation Ledger. The amounts appropriated under each fund are entered as credits to these accounts, Unappropriated Surplus being debited. As expenditures are completed, the expenditure accounts are debited, Accounts Payable being credited.

To summarize, the entries for appropriations, as per the budget, are as follows:

(2) To enter budget appropriations (from General Journal)

General Fund

General Ledger (see Budget Schedule A):			
Dr. Unappropriated Surplus		$72 000	
Cr. Appropriations			$72 500
Appropriation Ledger (see Budget Schedule C):			
Cr. General Administration	$ 5 000		
Public Safety	30 000		
Public Welfare	15 000		
Public Works	15 000		
Education	7 500		

A Special Revenue Fund

General Ledger:			
Dr. Unappropriated Surplus		$49 000	
Cr. Appropriations			$49 000
Appropriations Ledger:			
Cr. Recreation	$15 000		
Education	34 000		

Entries (1) and (2), as just illustrated, sometimes are combined into one entry, which would then appear for the General Fund as to the General Ledger as follows:

Dr. Estimated Revenues	$75 000	
Cr. Appropriations		$72 500
Unappropriated Surplus		2 500

Since the subsidiary entries in each case should follow the general ledger entry the choice of form of entry would depend considerably on the number of subsidiary items.

Where the number is large, separate entries for revenues and for appropriations are preferable.

A special form is necessary for the proper handling of subsidiary appropriation accounts (Schedule C), which is discussed in Chapter VIII. The method of dealing with the analysis or classification of the expenditures from each appropriation (Schedule C–1) also is dealt with in Chapter VIII.

Skeleton General Ledger Accounts. The following are skeleton general ledger accounts resulting from entries relating to the budget. A set of accounts in this form is essential for *each revenue fund.*

GENERAL FUND ACCOUNTS

Estimated Revenues

(1) Estimated revenues for fiscal period	$75 000		

This account, in conjunction with Revenues account (see Chapter VI), constitutes a control for the general fund section of the subsidiary Revenue Ledger.

Appropriations

		(2) Budget appropriations	$72 500

This account, in conjunction with Expenditures and Appropriation Encumbrances account (see Chapter VIII), constitutes a control for the general fund section of the subsidiary Appropriation Ledger.

Unappropriated Surplus

(2) Budget appropriations	$72 500	(1) Estimated revenues for fiscal period	$75 000

ACCOUNTS OF A SPECIAL REVENUE FUND

Estimated Revenues

(1) Estimated revenues for fiscal period	$50 000		

This account, in conjunction with Revenues account (see Chapter VI), constitutes a control for that section of the subsidiary Revenue Ledger covering this fund.

APPROPRIATIONS

	(2) Budget appropriations $49 000

This account, in conjunction with Expenditures and Appropriation Encumbrances account (see Chapter VIII), constitutes a control for that section of the subsidiary Appropriation Ledger dealing with this fund.

UNAPPROPRIATED SURPLUS

(2) Budget appropriations $49 000	(1) Estimated revenues for fiscal period $50 000

Subsidiary Revenue Ledger. In this ledger an individual account is opened with each item of estimated revenue included in the budget (see Schedule B). The sum of the balances of all accounts in each fund group must agree at all times with the balance of the Estimated Revenue account (minus Revenues, see Chapter VI) of that fund in the General Ledger. If the number of estimated revenue accounts is small, they may be carried in the General Ledger, and the Revenue Ledger may be dispensed with. In that case the single Estimated Revenue account in the General Ledger would be replaced by the several accounts herein described for the Revenue Ledger. The subsidiary ledger, however, has the advantage of showing in each of the several accounts the estimate and the actual in the same account, so that comparison is more readily possible.

REVENUE LEDGER

GENERAL FUND ACCOUNTS

TAXES

(1) Budget estimate $50 000	

FINES

(1) Budget estimate $10 000	

LICENSES

(1) Budget estimate $10 000	

SERVICE CHARGES

(1) Budget estimate $5 000	

ACCOUNTS OF A SPECIAL REVENUE FUND

Taxes

(1) Budget estimate	$40 000	

Fees

(1) Budget estimate	$10 000	

Subsidiary Appropriation Ledger. In this ledger an individual account is opened for each appropriation made in the budget (see Schedule C).

A special form is necessary for appropriation accounts, as described in Chapter VIII. For simplicity, the ordinary ledger account form is used here.

APPROPRIATION LEDGER

GENERAL FUND ACCOUNTS

General Administration

	(2) Budget appropriation	$5 000

Public Works

	(2) Budget appropriation	$15 000

Public Safety

	(2) Budget appropriation	$30 000

Education

	(2) Budget appropriation	$7 500

Public Welfare

	(2) Budget appropriation	$15 000

ACCOUNTS OF A SPECIAL REVENUE FUND

Recreation

	(2) Budget appropriation	$15 000

Education

	(2) Budget appropriation	$34 000

The sum of the balances of all accounts in each fund group in the subsidiary Appropriation Ledger must agree at all times with the balance of the Appropriations account (minus Expenditures and Appropriation Encumbrances, see Chapter VIII) of that fund in the General Ledger.

Fund Balance Sheet. The general ledger accounts of each revenue fund, after entering the budget as described herein, then appear in balance sheet form, as per Statement 1.

STATEMENT 1—FUND BALANCE SHEETS

(After Entering Budget)

GENERAL FUND

Estimated Revenues (per Schedule)	$75 000	Appropriations (per Schedule)	$72 500
		Unappropriated surplus	2 500
	$75 000		$75 000

A SPECIAL REVENUE FUND

Estimated Revenues (per Schedule)	$50 000	Appropriations (per Schedule)	$49 000
		Unappropriated surplus	1 000
	$50 000		$50 000

These balance sheets should be supported by schedules giving estimated revenues and appropriations in detail, as shown by the respective subsidiary ledgers. (See Chapters VI and VIII for the form of these schedules.) It should be noted that all balance sheets prior to Statement 14, Chapter X, show accounts as they appear during a fiscal period, therefore including budgetary accounts not closed out until the end of the period.

In actual practice, a fund balance sheet almost never would appear like the ones in this chapter, for the reason that there would always be balances from the previous period brought forward which would be included. The more usual accounts of this kind would be Cash, Taxes Receivable, Accounts Receivable, Accounts Payable, and (if unliquidated encumbrances are carried forward) Appropriations, Encumbrances, and Reserve for Encumbrances. The net difference between debit and credit balances would be the balance of Unappropriated Surplus. As already pointed out (Chapter IV), the budget entries to Unappropriated Surplus may be carried to the same account or a separate account, Unappropriated Budget Surplus (or Unappropriated Estimated Surplus), may be used in order to distin-

guish between the *actual* surplus from the preceding period and the *estimated* surplus of the current period.

Budget Adjustments. Changes in budget estimates and authorizations may take place during the year. Changes in estimates of revenues may result from a substantial change in the amount expected from a given source, or from the addition of a new item, or from the elimination of one previously included. If estimates of revenues are increased, the entry for the amount of increase is the same as the original entry of estimated revenues. If they are decreased, the opposite entry is made.

Changes in appropriations may result from additional appropriations, or from decreases in appropriations previously made, or from the lapsing of appropriations prior to the end of the fiscal year. Entries for additional appropriations are the same as the original entry of appropriations. The decreasing of total appropriations or the lapsing of appropriations is covered by the reverse entry. A transfer from one appropriation to another in the same fund affects the two accounts in the Appropriation Ledger but does not affect the General Ledger.

Such entries usually are made only in governmental bodies or in institutions where the appropriating body meets frequently, so that budget changes resulting from its actions can be made during the fiscal period.

Appropriation Allotments. A plan is frequently followed whereby assignments are made from appropriations to cover estimated expenditures for given portions of the fiscal period, such as months or quarters or a given activity or program. These assignments are called *allotments,*[1] and represent the limitations set on expenditures and encumbrances for the period or purpose for which made. When this plan is followed, if general ledger control of allotments is desired,

[1] In the federal government, the term "apportionment" is used to describe amounts of appropriations made available for specific periods, whereas the term "allotment" is used to cover amounts of apportionments allocated to specific activities.

additional general ledger and appropriation ledger accounts are necessary, as follows:

1. Unallotted Appropriations.
2. Appropriation Allotments.

The account, Unallotted Appropriations, is first opened when the budget is entered, being credited with the entire amount appropriated. It is debited monthly or quarterly, through the General Journal, with allotments made, Appropriation Allotments being credited. Its balance represents the amount of the fiscal appropriations not yet allotted.

The account, Appropriation Allotments, corresponds in both ledgers to the appropriation accounts already described, except that the credits consist of allotments rather than of entire appropriations. Encumbrances and expenditures are then handled through allotment accounts, and the balance represents the free balance of allotments rather than of the entire fiscal period appropriation.

Another plan is to provide a space at the top of the Appropriation Ledger (see Form A, Chapter VIII) in which allotments are entered, thus providing a memorandum record only for checking against total of expenditures and encumbrances.

Accounts of Assets. The Cash account shows as debits all cash receipts of the fund and all transfers of cash *to* the fund from other funds. It shows as credits the warrants issued on the treasury, to be paid out of the cash of the fund, and all transfers of cash *out of* the fund to other funds. Its balance, when thus handled, indicates the balance of cash of the fund in the treasury, allowing for all warrants issued against it.

As is later shown, a Warrants Payable account is sometimes used, and warrants issued are first credited thereto. As warrants are paid by the treasury, they are debited to this account and credited to Cash. Under this plan, the balance in the Cash account represents the balance of cash in the treasury in this fund.

If receipts are not deposited at once after being entered,

an additional account for Undeposited Cash is necessary. An account with Petty Cash also is frequently required. (See Chapter IX.) When money of any fund is placed in the hands of a fiscal agency for the payment of bonds matured or called, or of interest on bonds, an account, Cash with Fiscal Agent for Payment of Bonds and Interest, is also required.

Receivable accounts are maintained for taxes and for other classes of accounts due the government. They are set up when taxes are levied or when bills are rendered for other charges, the credit being to Revenues. Provision should be made for possible losses in taxes and other receivables, through accounts for Estimated Losses from Uncollectible Accounts, which, in the Balance Sheet, should be deducted from the asset accounts to which they relate.

The account, Due from Other Funds, covers any items for which other funds are indebted to this fund, such as loans, appropriations made to this fund from another fund, and supplies or materials transferred. It is credited when cash is transferred from a debtor fund, Cash being debited. All interfund receivables and payables should be clearly shown at all times. The total of all balances in "due from other funds" accounts in all funds at all times must equal the total of balances of "due to other funds" accounts. It is not proper to cancel these balances against each other in a combined balance sheet covering all funds. Each fund is a separate financial entity, and its correct condition can be shown only if all amounts due it and all amounts owed by it are exhibited, even though some of those items are receivable from or payable to other funds or divisions of the same government.

Other asset accounts which may be required are

Tax Liens, representing claims against properties for delinquent taxes on account of which legal action has been taken by filing liens against the properties covered.

Investments, covering securities in which money has been temporarily invested.

Due from Other Governments, representing balances of grants made by other governments and not yet paid, or of taxes collected by them and not yet remitted.

If service operations or stocks of supplies are handled through a revenue fund instead of through a working capital fund, as described in Chapters XI and XII, Stores, Work in Process, or similar accounts will be required.

Deferred items for expenses to be carried forward against future periods ordinarily are not set up. An exception may be Accrued Interest on Investments Purchased, which is to be charged against the first collection of interest on such investments. Accrued items not yet due ordinarily are not set up.

Accounts of Liabilities. Accounts Payable account corresponds to the usual account of that name and is credited with the amount of vouchers audited and approved for payment. It is debited as warrants are issued in payment of vouchers. Its balance, therefore, represents the balance of vouchers for which warrants have not been issued. This account may be omitted if warrants are regularly issued immediately upon the approval of vouchers, Cash being credited at this time instead.

As before mentioned, Warrants Payable may also appear as an obligation account. Other payable accounts may be necessary, such as Judgments Payable.

Accounts of temporary loans include Anticipation Tax Notes (or Warrants) Payable. This account represents the amount of notes issued in anticipation of collection of taxes and on the basis of which funds are borrowed. These notes constitute a first lien on the tax collections. Other temporary loans are shown in separate accounts. Temporary loans are those that are payable out of the fiscal resources of the fund. Long-term loans are treated in a different manner, as later described. (See especially Chapters XIII, XIV, XVI, XVII, XVIII.)

Due to Other Funds account represents the obligations of this fund to other funds, for any purpose. Transactions

between funds involving cash should be handled, if possible, by transfer by journal entry rather than by the issuance of warrants.

An additional account may be required for Due to Other Governments. An account, Taxes Collected in Advance, may be required if the practice is followed of receiving tax payments in advance of the period in which they become due. Otherwise deferred items are not usually set up. Accrued items not yet due ordinarily are not set up.

Unappropriated Surplus Account. The Unappropriated Surplus account is a summary account into which are credited the amounts of estimated revenues and to which are charged all appropriations from that revenue. The balance in this account during the fiscal period, therefore, represents the unappropriated balance of estimated revenues for the fiscal period plus the beginning balance. Should the debits exceed the credits, it would indicate that the appropriations have exceeded the probable revenues and that a deficit exists.

All revenue estimates and appropriations are for a fiscal period, and at the end of that period the Estimated Revenues account and the unencumbered balance of Appropriations are closed back into Unappropriated Surplus after Revenues and Expenditures accounts, respectively, have been closed into them.

The balance at the end of the fiscal period indicates the accumulated surplus of revenues over expenditures and commitments, or the deficit of expenditures and commitments over revenues in the reverse situation. A credit balance at the end of a fiscal period represents the amount available for appropriation, which amount becomes a budget resource of the subsequent period. (See Chapter IV, Budget Schedule A.) It is now a *real* surplus of the fund to which it relates and no longer an *estimated* surplus.

A distinction may be made during a fiscal period between surplus brought forward from the preceding period and the estimated surplus of the current period by carrying a separate account for the latter under the heading of Unappro-

priated Budget Surplus. The advantage of such an arrangement is that the surplus which is estimated is separated from that which is realized, and the status of the current year's budget as to the sum of current year's revenues not yet appropriated is more readily available. The Unappropriated Surplus account would then represent only the balance from preceding periods (with any surplus adjustments) and available for non-recurring purposes. In this volume, such a distinction is not made; it should be kept in mind that the balance of Unappropriated Surplus shown from time to time during the fiscal period is in part or in full an *estimated* surplus. (See also discussion of the use of the term "surplus" in Chapter III.)

Operation of Revenue Funds. The first step in opening the accounts of a revenue fund occurs when the budget is approved and the resources of the fund are established. A debit is then made to Estimated Revenues account for the estimated revenues of the period, Unappropriated Surplus being credited. As revenues accrue, Accounts Receivable or Cash is debited, Revenues being credited. As accounts receivable are collected, Cash is debited and Accounts Receivable credited.

Similarly, on the basis of the budget, Appropriations is credited for the amount appropriated in the budget for various purposes, Unappropriated Surplus being debited. As orders and contracts are placed which are payable from appropriations, Appropriation Encumbrances account is debited and Reserve for Encumbrances credited. As these encumbrances are vouchered and audited for payment, that entry is reversed and, as a companion entry, Expenditures account is debited and Accounts Payable credited. As warrants are issued for these vouchers, Accounts Payable is debited and Cash credited. Thus a revenue fund gradually accumulates, then is gradually depleted, and finally may be extinguished or "expended."

After all revenues for a given period have been collected in cash and all bills have been paid as approved from appropriation for the period, there will result a slight increase or

decrease in cash (unless all estimates have been correct and all revenues appropriated) and the following accounts will remain with balances until they are closed appropriately at the end of the year.

1. Affecting Revenues:
   Estimated Revenues with a debit balance.
   Revenues with a credit balance.
2. Affecting Expenditures:
   Expenditures with a debit balance.
   Appropriations with a credit balance.

General Ledger Accounts. General Ledger accounts for these various resources and obligations are necessary. The more usual accounts are presented herein with a brief explanation of the meaning of each. The transactions relating to these accounts are presented with illustrative figures in succeeding chapters and are summarized in Chapter X. Other accounts may be necessary, on occasion, to cover completely the operations of these funds. For example, if stores are purchased from a revenue fund and held in stock to be disbursed later on requisition, the stores inventory is a resource of the fund, and an account with it would be required. Surplus receipts, covering non-revenue items which increase surplus, should be credited to a special account or accounts until the close of the fiscal period and then closed into Unappropriated Surplus. Other accounts, not illustrated, which may be necessary are Tax Liens, Due from Other Governments, Investments, Taxes Collected in Advance.

For every revenue fund, a group of accounts, corresponding to the accounts shown herein, is kept in the General Ledger. These accounts balance and are completely separate and distinct from the accounts of all other funds. A section of the General Ledger should be devoted to the accounts of each fund.

Every transaction affecting a given fund must be represented by both a debit and a credit *within that fund.* If

the transaction affects more than one fund, there must be a debit and a credit for every fund affected. *A debit cannot be made in the account of one fund and the contra credit made in an account of another fund or vice versa.*

Cash. Balance (debit) represents the net amount of cash on hand *in this fund* after allowing for all warrants issued. (If Warrants Payable account is used, Cash balance represents cash on hand *in treasury.*)

Accounts Receivable. Balance (debit) represents amount of accounts receivable not yet collected. (This is a controlling account for subsidiary Accounts Receivable Ledger or multiple record.)

Taxes Receivable. Balance (debit) represents amount of taxes uncollected. (This is a controlling account of subsidiary tax record.)

A separate account should be kept for taxes of each year and for different kinds of taxes.

Estimated Losses from Uncollectible Taxes. Balance (credit) represents amount set up to cover estimated losses in collection.

Final balance is closed into Tax Revenue. The time when this is done will depend on the stage of progress of collection. An adjustment may be necessary at the close of the fiscal year. (On the Balance Sheet this account is deductible from Taxes Receivable.) A similar account is required in relation to Accounts Receivable.

Due from Other Funds. Balance (debit) represents amount due from other funds on account of interfund loans or transactions and must be offset by contra balances in other funds.

Estimated Tax Revenue. Current balance (debit) represents estimated tax revenue of fiscal period.

A similar account is used for Estimated Miscellaneous Revenues.

Tax Revenue. Balance (credit) represents net tax revenue for fiscal year to date. During a fiscal year this balance is deducted from Estimated Tax Revenue in preparation of

the Balance Sheet. It is closed at the end of fiscal year to Estimated Tax Revenue.

This account, together with Estimated Tax Revenue, constitutes a control for the Taxes accounts in the subsidiary Revenue Ledger.

A similar account is required for Miscellaneous Revenues.

Accounts Payable (may be omitted if all vouchers are paid immediately after audit). Current balance (credit) represents accounts unpaid.

Loans Payable. Balance (credit) represents amcunt of current loans outstanding. They must agree with subsidiary record showing loans in detail. (The title of the account should indicate the type of loans, such as Tax Anticipation Notes Payable.)

Due to Other Funds. Balance (credit) represents amount due other funds on account of interfund loans or transactions and must be offset by contra balances in other funds.

Reserve for Encumbrances (or Unliquidated Encumbrances). Current balance (credit) represents estimated cost of outstanding encumbrances.

Appropriation Encumbrances. Current balance (debit) represents estimated cost of all encumbrances outstanding against appropriations of a given fund and must agree with the net balance of Encumbrances of all Appropriation Ledger accounts of that fund.

On the Balance Sheet this account is to be deducted from credit balance in Appropriations account, as is also Expenditures account.

Appropriations. Current balance (credit) represents total appropriations for fiscal period.

Balance at end of fiscal period (less appropriation encumbrances and expenditures) is closed into Unappropriated Surplus.

This is a controlling account for subsidiary Appropriation Ledger, the total balances of which must agree with balances of this account *less* Appropriation Encumbrances and Expenditures.

Expenditures. Current balance (debit) represents net expenditures of this fund for fiscal period to date. During the fiscal year this balance is deducted from Appropriations in preparation of the Balance Sheet, as is also the balance of Appropriation Encumbrances.

It is closed at end of the fiscal period into Appropriations.

Unappropriated Surplus. Current balance (credit) represents excess of estimated revenues over appropriations or balance of estimated revenues unappropriated, plus or minus beginning balance. (Debit balance indicates deficit.)

Balance at the end of the fiscal period represents actual surplus (or deficit) of revenues over expenditures (cumulative) and is carried forward as a balance of the succeeding period.

FUND BALANCE SHEET OF REVENUE FUND

(As of Any Date during Fiscal Period)

Cash	XXX	Accounts Payable	XXX
Taxes Receivable (less Estimated Uncollectible)	XXX	Loans Payable	XXX
Accounts Receivable (less Estimated Uncollectible)	XXX	Due to Other Funds	XXX
Due from Other Funds	XXX	Reserve for Encumbrances	XXX
(*a*) Estimated Revenues[1]	XXX	(*a*) Unencumbered Appropriation Balances[2]	XXX
		Unappropriated Surplus	XXX

The foregoing pro forma Balance Sheet illustrates the method of exhibiting the accounts of a revenue fund and shows these accounts as they appear as of any date during the course of a fiscal period. This Balance Sheet includes the principal accounts ordinarily appearing in such a fund, as illustrated in this chapter. It agrees with the principles set forth herein. The accounts should be kept so that a balance sheet in this form can be prepared for *each* revenue fund. The amount of unappropriated surplus of each fund, or the amount available for appropriation, is thus shown, which is one of the most important items of information

[1] Estimated Revenues less Revenues.
[2] Appropriations less Appropriation Encumbrances and Expenditures.

for administrative purposes that governmental accounts should produce.

At the end of a fiscal period, accounts marked (*a*) are closed into Unappropriated Surplus and do not appear in the Balance Sheet as of the end of the period.

An example of the Balance Sheet of a revenue fund as of a date during the fiscal period is presented in Illustration I.

ILLUSTRATION I—CORPORATE FUND BALANCE SHEET

Cash	$ 92 642	Accounts Payable	$ 32 858
Taxes Receivable (Less Uncollectible)	387 148	Anticipation Tax Warrants Payable	310 000
Accounts Receivable (Less Uncollectible)	1 467	Judgments Payable	765
Judgments Receivable (Less Uncollectible)	358	Due to Other Funds	8 763
Due from Other Funds	111 448	Reserve for Encumbrances	67 846
Estimater Revenues (Less Revenues)	362 826	Appropriation Balances (Less: Encumbrances Expenditures	510 364
		Unappropriated Surplus (Add Surplus Receipts)	25 293
	$955 889		$955 889

ILLUSTRATION II—CORPORATE FUND BALANCE SHEET

Cash	$ 92 642	Accounts Payable	$ 32 858
Taxes Receivable	387 148	Anticipation Tax Warrants Payable	310 000
Accounts Receivable	1 467	Judgments Payable	765
Judgments Receivable	358	Due to Other Funds	8 763
Due from Other Funds	111 448	Reserve for Encumbrances	67 846
		Unappropriated Surplus	172 831
	$593 063		$593 063

Assuming that the condition shown by the Balance Sheet in Illustration I existed at the close of the fiscal period before closing, the Balance Sheet as shown in Illustration II would result after closing the budgetary accounts.

General and Special Revenue Funds. Expendable revenue funds are of two kinds: (*a*) the General Fund, (*b*) vari-

ous special revenue funds. The General Fund includes the revenues from all general tax levies and also all miscellaneous revenues not designated for specific use by statute or charter. In addition to these items, receipts that are not by law or contractual agreement applicable to specified uses are ordinarily deposited in the General Fund. The resources of the General Fund may be appropriated and expended for any purpose for which the government to which it belongs may expend its money.

Special revenue funds are necessary whenever revenues are collected which are specified by statute or charter to be expended only for specific purposes. Examples of such funds are those established for the maintenance of parks, schools, and hospitals. The enactment of mandatory provisions for such funds on the whole is not to be commended, for such procedure frequently results in building up funds for particular activities when other, equally important ones may be suffering because of the lack of such specific resources. As a broad principle it is desirable that all revenues be undesignated as to their use and be treated as general resources and that all activities be considered on their merits in relation to the total available resources. If special funds exist, however, each must be accounted for separately.

If such funds are similar in nature and purpose, the accounts of the group may be combined into a single statement. Under no circumstances, however, should the assets belonging to one fund be used to meet expenditures of another fund unless loans from the one fund to the other are duly authorized and actually recorded in the accounts.

CHAPTER VI

REVENUES

Significance. Government depends primarily upon revenues to maintain and develop its services. These revenues consist mainly of taxes levied for general or for special purposes, and of charges made for specific services. From them government must meet its expenses of operation and maintenance, interest on its indebtedness, and must provide for the extension or replacement of its physical assets, either outright or by amortization of debt obligations incurred in connection with their acquisition.

Definition. Revenues are additions to cash or other current assets which are expendable and which do not increase any liability or reserve.

In accounting for or reporting the revenues of a particular period, both the cash basis and the accrual basis, as described in Chapter II, are followed. The foregoing definition applies when the accounting is on the accrual basis. When the accounts are on a cash basis, the "additions" must be to cash only; otherwise, the definition is equally applicable.

The term "revenue" is synonymous with "income" in governmental accounting, except in publicly owned utilities. In those enterprises, following the usage applied in privately operated undertakings of a similar nature, the term revenue is applied to operations only, and the term income is used to cover all revenues (see Chapter XIII).

Revenues Increase Assets. Revenues must constitute an increase in net assets. An addition to assets offset by an addition to liabilities, such as proceeds of a loan, is not a revenue. Collection of an amount charged for services and set up as an account receivable would not be a revenue,

since it would be merely the reduction of another asset. An example is the *collection,* resulting from a charge against a property owner for the cost incurred by the street department in opening a curbing into the property for the installation of a private drive. Collection of the item merely changes the asset from a receivable to cash. (The situation is different when a fixed charge is levied, even though that charge is set up as an accounts receivable. Such an item is a revenue and is so entered either when it is set up as a receivable or when it is collected, depending on the system followed.)

Expendability of Revenues. Acquisitions of money or wealth to be classed as revenues must be *current* in character; in other words, they must be in *cash* or *realizable in cash* within a reasonable time. They must also be *expendable.* A gift of real estate, for example, or other permanent property to be used permanently by the government would not be revenue because it could not be converted into money for expenditure. A gift of an endowment fund, the principal to be held permanently intact, even though that gift be in money or in wealth convertible into money, would not be revenue because it could not be expended.

Revenues Must Increase Expendable Surplus. Revenues must increase net assets or, in other words, must *increase assets without increasing liabilities.* Receipts from loans, for example, are not revenues because they increase liabilities to the same extent that they increase assets. Receipts from accrued interest on bonds issued are not revenues, for they must be put into a reserve against the ultimate payment of the interest. Receipts of deposits or other trust money result in the creation of reserves or liabilities.

Revenues, therefore, must *increase the surplus of expendable funds.* However, not all additions to expendable surplus are revenues. Receipts from the sale of property, for example, might increase expendable surplus but would not be revenue because some asset has been reduced. Here the equity representing this property is not included in the ex-

pendable surplus of a fund. When the property is sold, however, the proceeds become an addition to an expendable fund and therefore increase its surplus. A decrease takes place, concurrently, in the equity account of the fixed assets and liabilities group. (See Chapters VII and XVIII.)

Summary of Characteristics. The essential features of revenues may be summarized as follows:

An Item To Be a Revenue Must	*An Item To Be a Revenue Must Not*
1. Increase net assets.	1. Decrease net assets.
2. Be expendable.	2. Increase net liabilities.
3. Increase expendable surplus.	3. Be a recovery of an expenditure.
	4. Increase reserves.

Revenues vs. Receipts. It is evident that there is an important distinction between the "revenues" and "receipts" of a given fiscal period. The receipts of a given period include all cash actually received from every source and on every account during the period. Many items of receipts are not revenues, and not all revenues are actually collected during the period in which they accrue. Examples of cash receipts which are not revenues are loans, deposits, gifts for endowment, refunds of disbursements made in error, sale of assets, such as investments or supplies held in stock, and sale of fixed assets.

Classification of Revenues. Revenues are classified by (1) funds and (2) sources.

Classification by *funds* follows the essential requirements of authorization of resources which must be applied to specific purposes. This can be accomplished only by analyzing and segregating revenues by funds. All revenues must be accounted for under the funds to which they relate, as per the original authorization.

Funds in which revenues are realized include (1) revenue funds—the General Fund and all special revenue funds; (2) utility funds; (3) expendable trust funds; (4) sinking funds. In occasional circumstances, revenues might be realized by working capital funds and bond funds. Examples would be in working capital funds if sales are carried on at

a profit and in bond funds if cash is temporarily invested and interest is received.

The status of special assessment funds with respect to revenues is not clearly established. The United States Bureau of the Census includes the collections of special assessments and interest thereon as revenues on the ground that expenditures covered by them cannot be segregated from expenditures from revenues. The writers, however, regard special assessment funds primarily as trust or agency funds, handled by the government mainly for the benefit of property owners or bond holders affected, and consequently regard neither the collection of assessments nor the interest thereon as revenues.

Classification of Governmental Revenues by Source. Revenues should also be classified by *source* in order that accounts and reports may reveal adequate information concerning the distribution of the revenues. Classification by source varies considerably in different kinds of governments or institutions, so that a classification, applicable to each situation and comprehensive for its purposes, should be made. In general, governmental revenues ordinarily may be classified under the following major headings:

1. *Taxes.* They consist of charges levied at regular intervals against persons, property, or business. They may be levied to provide for the general expense of the government, without relation to any specific service, or they may be levied for the express purpose of meeting the expense of certain services or activities. Any levy made for a specific purpose is a revenue of a special fund. A wide variety of types of taxes is to be found. The most common types are property tax, income tax, sales tax, motor vehicle tax, motor fuel tax, cigaret tax, and liquor tax.

2. *Licenses and Permits.* These charges are made for certain rights granted by the government to the persons or concerns paying the charge. They may relate to the right to carry on a certain business continuously for a certain period; the right to do a certain act, such as erecting a building; the right to use certain public property.

3. *Fines, Forfeits, and Penalties.* They represent charges assessed for offenses, failure to pay debts due the government within the time allowed, and damages.

4. *Use of Money and Property.* They include interest on bank balances, rents of income-producing properties, interest on investments, also amortized premium on bonds sold.

5. *Revenues from Other Agencies.* Under this heading are included two types of items: (*a*) grants or appropriations for current purposes from other governments, such as from the federal government to states or cities, or from the state to local governmental units; (*b*) shared taxes, which are collected by one government but divided between itself and other units. In the first instance, the resources out of which the grants and appropriations are made are accounted for as revenues of the granting authority, and the grants or appropriations as its expenditures. In the second instance, only the portion of the taxes retained by the collecting agency is considered its revenues. In each case, these items are revenues of the governmental body receiving the aid.

6. *Charges for Services.* Included here are all charges made for services or sales. They comprise service of utilities; sale of publications, manufactured articles, or farm products; institution service; or other specific charges made for definite services, such as recording a document or inspecting a building.

7. *Gifts for Current Purposes.* They include all gifts which are not endowments to be used for governmental purposes.

Control of Revenues. In order to make certain that all revenues due the government are properly accounted for, an adequate system of control through the budget and accounting system should be effected. Various methods of effecting control under different circumstances have already been described (Chapter IV). In this volume a complete plan of general ledger control is followed. This control falls under the following headings:

1. *Budget Estimate.* In this connection the most careful possible estimate of revenues to accrue from the various sources is made in the preparation of the budget, and set up in the accounts. Regular reports should show the progress of realization of each class of revenue.

2. *Levies.* This important step consists in levying or assessing the sums due (*a*) against all citizens who own property or otherwise are taxable, as in general taxes; and (*b*) against persons who receive service or privileges or are in debt to the government for other reasons, as in licenses, fees, fines, sales, and utility service. In all these matters it is essential that a complete record of every such levy or charge be made on multiple forms, supplied by the financial or accounting officer of the governmental body through which collection is made, and that on the basis of these records entries be made in its general accounts. Copies of the records of levy or charge are then placed in the hands of the collecting officer, who must account for every item. Sometimes the levy is made by one government and is collected by another, in which case control accounts of the levy should also be maintained by the body making it.

3. *Collection.* As just stated, the first steps in collecting accounts are the assessing and billing made in a uniform manner and properly taken up on the general accounts. The collecting officer is then responsible for the collection of all items thus placed in his hands, and he must account for the collection in money or in uncollectible accounts, reporting regularly to the accounting officer. The collecting officer should deposit all collections in full as promptly as practicable in a governmental depository to the government's credit.

Accounting for Revenue-Producing Levies. It has already been shown how accounts are set up with estimated revenues (Chapter V). Entry of the realization of these estimates may be carried out in one of two ways.

1. By the levying or making of charges for items classified as revenue and entering the same as revenues when set up as accounts receivable.
2. By the collection of revenues simultaneously with their assessment and entry.

If the accounts are kept on an accrual basis, both of the foregoing methods of procedure will be required. Some items, such as taxes or utility customers' accounts, are set

up as receivables and entered as revenues in advance of collection. Other items, such as licenses or fees, usually are collected and entered as revenues at the time of assessment.

If the accounts are kept on the cash basis as to revenues, entries of items as revenues will be made only when collected in cash. Even in this case it is desirable to set up a receivable account to provide control over items in collection. When this is done, a contra credit for the full amount of the receivable account is entered. In this volume, the procedure described is that followed when the accrual basis of accounting for revenues is used. This means that taxes and other revenues are taken into the accounts as revenue (with allowance for estimated amounts uncollectible) in the year to which they relate, regardless of the time when actually collected. In other words, the usual commercial plan of accrual accounting is followed rather closely with respect to revenues. The chief exception is as to items not falling due until a succeeding period, such as accrued interest on investments.

Accounting steps incident to a tax levy, for example, are as follows:

1. Levy of taxes for General Fund and providing for estimated losses of 4 per cent: [1]

In General Ledger (from General or Special Journal)		
General Fund		
Dr. Taxes Receivable	$52 300	
Cr. Estimated Uncollectible Taxes		$ 2 092
Revenues		50 208

Levy of taxes for a special fund, with reserve:

In General Ledger:		
A Special Revenue Fund		
Dr. Taxes Receivable	$41 400	
Cr. Estimated Uncollectible Taxes		$ 1 656
Revenues		39 744
In subsidiary tax rolls, register, or ledger		
Dr. Individual Accounts, total	$93 700	

[1] If the collection is made by some other governmental body which charges a fee for this service, the estimate may also include provision for this cost.

In subsidiary Revenue Ledger

Cr.	Taxes, General Fund	$50 208
	Taxes, A Special Revenue Fund	39 744

A separate receivable account should be used for each class of accounts; for example, Taxes Receivable, Water Rents Receivable. All receivable accounts should be classified in such a way as to indicate properly their character and the period to which they refer, as, for example, the year or month. When the uncollected balance of a tax levy becomes delinquent, the account should be so labeled. Receivables from other governmental bodies should be distinguished from those against individuals. The former are frequently entitled in such a manner as "Due from State of ——————."

Not all types of taxes can be set up as receivables, based on a definite levy or assessment. Property taxes can be handled in this manner. Deferred instalments of income taxes may be so treated although at the present time the general accounting system of the federal government does not so provide for federal income taxes. Sales taxes and similar items, as a rule, must be handled substantially on a cash basis.

Provision for Uncollectible Taxes (Estimated Losses). When realization of taxes is entered at the time a levy is completed, appropriate allowance should be made for items that may be abnormally slow or impossible to collect. This sum is then set up as a "reserve" against the total levy and only the net difference carried to Taxes Revenue account. In arriving at the amount of this reserve, experience of previous years is taken as a guide.

When any accounts are actually determined to be uncollectible, they may be written off by debiting Estimated Uncollectible Taxes and by crediting Taxes Receivable. If the actual collections exceed the estimated sum after allowing for the reserve, so that the amount to be written off is less than the amount of the estimated losses, then the balance of the account is closed to Revenues because the

amount realized is greater than the amount previously credited to Revenues when the receivable was entered. A similar allowance should be provided for each class of accounts receivable. Accounts other than taxes, however, are not levied in relation to a specific year, so that adjustments in the allowances are not necessary unless they prove to be excessive or inadequate.

Abatements, or reductions in taxes made after they are levied but before the taxes are paid, may be handled in the same manner as uncollectible taxes by debiting Estimated Uncollectible Taxes and crediting Taxes Receivable. This assumes that possible abatements were taken into consideration when the reserve was set up. Refunds of taxes actually paid, however, must be made by warrant and usually charged to an appropriation. In that case, the budget must include, under each fund for which taxes are levied, an appropriation out of which to pay refunds of taxes. In preparing statements of revenues and expenditures at the close of the fiscal period, amounts paid out as refunds should be deducted from the corresponding receipts as well as from disbursements, so that the true revenue from this source may be shown and so that disbursements of this nature may not appear as expenditures. (See Chapter XIX.)

In municipalities, tax levies commonly must cover specific appropriations and may not be in excess of those appropriations. No excess can be levied, therefore, with a view to allowing for shrinkage in collections. In view of this fact, it is the common practice to include under appropriations an item to offset uncollectible taxes and abatements as well as refunds. At the close of the fiscal period, the balance in this account would lapse into Unappropriated Surplus and would thus offset the uncollectible portion of the tax levy.

Accounting for Collection of Revenues. Accounting for collection of revenues likewise falls under two heads, as follows:

1. Collection of revenues that have been previously set up as receivables.
2. Collection of revenues *not* previously set up as receivables.

When an item, set up as a receivable, has been entered under revenues at that time, the Revenues account is not affected when collection is made. Any item not previously entered in this manner is a credit to Revenues account when collected. If the accounting is on a cash basis, all credits to Revenues are of that kind. In this outline, the accrual basis is followed as to all items assessed in advance of collection. Entries relating to collection of such items are

2. For collection of taxes
   (from Cash Receipts Journal, see also Chapter VII):

General Ledger		
General Fund		
Dr. Cash	$5 600	
Cr. Taxes Receivable		$5 600
A Special Revenue Fund		
Dr. Cash	$4 100	
Cr. Taxes Receivable		$4 100
In subsidiary tax receivable records		
Cr. Individual accounts		

Interest and penalties on tax collections are entered separately from tax assessments. Ordinarily, it is not practicable or essential to set up such items as receivables. However, if supplementary bills are prepared and sent out on which these items are computed and entered, they should be set up as receivables.

If property against which taxes are assessed is put up for sale by the taxing body for non-payment of taxes and is bid in by others, and taxes paid thereon by the bidders, the amount received represents realization of the taxes assessed, plus interest and penalties, if any. If such property is bid in by the taxing body, a new account should be opened for Tax Sale Certificates, or Property Acquired by Tax Sale, and Taxes Receivable credited. If such property is not

redeemed by the end of the fiscal period, a full reserve to offset it should be set up, either by transfer from the Estimated Uncollectible Taxes, if the latter is sufficient, or by debit to Revenue.

For collection of revenues that have *not* been previously set up as receivables, the following procedure applies:

3. For receipt of miscellaneous revenues (from Cash Receipts Journal):

General Ledger		
General Fund		
Dr. Cash	$2 700	
Cr. Revenues		$2 700
A Special Revenue Fund		
Dr. Cash	$1 300	
Cr. Revenues		$1 300
Revenue Ledger		
Cr. General Fund: Licenses		$1 500
Fines		1 200
A Special Revenue Fund—Fees		1 300

General Ledger Accounts. After the transactions described in this chapter have been entered, the General Ledger accounts appear as follows:

GENERAL FUND ACCOUNTS

Taxes Receivable

(1) Gross amount of taxes levied	$52 300	(2) Taxes collected	$5 600
		(Cr. for uncollectible taxes written off or for tax abatements)	

(This is a controlling account for a subsidiary tax ledger or multiple record.)

Estimated Uncollectible Taxes

(Dr. for uncollectible taxes written off or for tax abatements)		(1) Estimated amount of taxes considered uncollectible or subject to abatement	$2 092

(On the Balance Sheet this account should be deducted from Taxes Receivable.)

GENERAL FUND ACCOUNTS (*Continued*)

Cash

(2) Receipts from taxes $5 600	
(3) Receipts from other sources of revenue 2 700	

Estimated Revenues

Budget estimate (see Chapter V) $75 000	

Revenues

	(1) Taxes $50 208
	(3) Other revenues 2 700

Appropriations

	Budget appropriations (see Chapter V) $72 500

Unappropriated Surplus

Budget appropriations (see Chapter V) $72 500	Budget estimate of revenues (see Chapter V) $75 000

ACCOUNTS OF A SPECIAL REVENUE FUND

Taxes Receivable

(1) Gross amount of taxes levied $41 400	(2) Taxes collected $4 100
	(Cr. for uncollectible taxes written off or for tax abatements)

Estimated Uncollectible Taxes

(Dr. for uncollectible taxes and tax abatements)	(1) Estimate $1 656

Cash

(2) Receipts from taxes $4 100	
(3) Receipts from other sources of revenue 1 300	

Estimated Revenues

Budget estimate (see Chapter V) $50 000	

ACCOUNTS OF A SPECIAL REVENUE FUND (*Continued*)

Revenues

		(1) Taxes	$39 744
		(3) Other revenues	1 300

Appropriations

		Budget appropriations (see Chapter V)	$49 000

Unappropriated Surplus

Budget appropriations (see Chapter V)	$49 000	Budget estimate of revenues (see Chapter V)	$50 000

Balance Sheets. The balance sheets of the different funds now appear as per Statement 2.

STATEMENT 2—FUND BALANCE SHEETS

General Fund

Cash		$ 8 300	Appropriations	$72 500
Taxes Receivable	$46 700		Unappropriated Surplus	2 500
Less Estimated Uncollectible	2 092	44 608		
Estimated Revenues[1]		22 092		
		$75 000		$75 000

A Special Revenue Fund

Cash		$ 5 400	Appropriations	$49 000
Taxes Receivable	$37 300		Unappropriated Surplus	1 000
Less Estimated Uncollectible	1 656	35 644		
Estimated Revenues[1]		8 956		
		$50 000		$50 000

The amount stated under the heading of Estimated Revenues in each fund represents the difference between

[1] Revenues deducted.

the balance of Estimated Revenues account and Revenues account in the General Ledger. If the balance of the Revenues account exceeds that of the Estimated Revenues account, indicating that the amount of revenues realized to date exceeds the estimate, the difference should be shown on the credit side of the Balance Sheet as an addition to Unappropriated Surplus.

In comparing these balance sheets with those appearing at the close of Chapter V, it is noted that the amount previously shown under Estimated Revenues has been reduced, Cash and Taxes Receivable being increased to correspond. The balance sheets now show, for each fund, that a certain portion of the estimated revenues has been collected, a certain further portion has been entered in the form of taxes still uncollected, and an additional portion is yet unaccrued.

Since no expenditures have been made or obligations entered into, the obligation side of the balance sheets remains unchanged.

The order in which the items are stated is also important. Cash should always appear first, followed by other current assets; Estimated Revenues should always appear last.

Subsidiary Ledger Accounts. In the subsidiary Revenue Ledger it will be possible ordinarily to combine the accounts of Estimated Revenues and actual Revenues from each of the respective sources in one account. The debits to all such accounts in a given fund, less any credits that may affect the estimates of revenue, must equal the balance of Estimated Revenue account of that fund in the General Ledger. The credits to all such accounts, less any debits that may represent adjustments in revenue, such as refunds of items collected in error, must equal at all times the balance of Revenues account of that fund in the General Ledger. The illustrative accounts shown herewith are set up in that manner.

The accounts of the subsidiary Revenue Ledger now appear as follows:

REVENUE LEDGER

GENERAL FUND ACCOUNTS

TAXES

Budget estimate (Chapter V)	$50 000	(1) Assessed, less reserve	$50 208

LICENSES

Budget estimate (Chapter V)	$10 000	(3) Collected	$1 500

FINES

Budget estimate (Chapter V)	$10 000	(3) Collected	$1 200

SERVICE CHARGES

Budget estimate (Chapter V)	$5 000		

ACCOUNTS OF A SPECIAL REVENUE FUND

TAXES

Budget estimate (Chapter V)	$40 000	(1) Assessed, less reserve	$39 744

FEES

Budget estimate (Chapter V)	$10 000	(3) Collected	$1 300

Should any revenues accrue from sources not indicated in the budget, new accounts should be opened in the Revenue Ledger and these items credited thereto. Such items may be carried as credit balances in the Revenue Ledger until the end of the fiscal period, at which time the accounts are closed in regular order, or an adjustment may be made in the budget estimate and entries framed accordingly.

The account for Taxes in the Revenue Ledger is not to be confused with the Taxes Receivable account in the General Ledger. The former account deals with the estimated revenue from taxes for the year. It allows for whatever

reserve is considered necessary on account of losses in collection. It is credited with the amount entered as revenue, either on the accrual basis (if that method is followed) or on the cash basis. Whichever of these accounting plans is followed, its balance indicates that part of the estimate not yet realized.

The Taxes Receivable account shows as debits the gross amount of taxes levied. It shows as credit the total amount collected, also any reductions through abatements. Its balance represents the net amount levied but not yet collected.

Statement of Realization of Revenues. A regular statement of realization of revenues should be prepared in the form of Statement 3.

STATEMENT 3—STATEMENT OF REALIZATION OF REVENUES

	(1) Budget Estimate	(2) Actual to Date	(3) Balance Un-realized	(4) Col-lected	(5) Out-standing
GENERAL FUND:					
Taxes	$50 000	$50 208	$+208	$5 600	$46 700
Licenses	10 000	1 500	8 500	1 500	
Fines	10 000	1 200	8 800	1 200	
Service charges	5 000		5 000		
Total	$75 000	$52 908	$22 092	$8 300	$46 700
A SPECIAL REVENUE FUND:					
Taxes	$40 000	$39 744	$ 256	$4 100	$37 300
Fees	10 000	1 300	8 700	1 300	
Total	$50 000	$41 044	$8 956	$5 400	$37 300
Grand Total	$125 000	$93 952	$31 048	$13 700	$84 000

This statement is of great importance, since it shows clearly the extent to which each item of revenue has been realized. In the first column is entered the original budget estimate of each item, the amounts being taken from the

debit side of the various accounts in the Revenue Ledger. Fund totals correspond to the total debits of the estimated revenues accounts in the General Ledger. Under Column 2, the amounts come from the credit side of the various accounts in the Revenue Ledger and represent the amounts entered as revenues to date on the accrual basis for items entered when assessed as receivables, such as taxes, and on the cash basis for other items, such as licenses, fees, and service charges.

Column 3 thus gives the difference between Column 1 and Column 2, representing in each case the *balance* in the respective accounts in the Revenue Ledger and the difference between estimated revenues accounts and the revenues accounts of the respective funds in the General Ledger. The amounts shown in Column 3 for the respective funds appear in the respective balance sheets. They represent, in each fund, the amount of estimated revenues not yet entered as realized as of the date of the statement. For taxes this means the excess of estimate over the amount levied to date, or the reverse. As to other items, it means the excess of the estimate over the amount collected to date. If the system of accounting and reporting revenues is on the cash basis, the latter condition applies to all items.

In Column 4 are entered the amounts collected under each revenue item to date, the information coming from the credit side of various general ledger receivable accounts or, with items accounted for on a cash basis, from revenue ledger accounts. In Column 5 is then shown the amount still outstanding and uncollected on items entered when billed. The amounts in it are therefore taken from accounts of taxes receivable or other receivable accounts in the General Ledger, and consequently they are found also in the Balance Sheet. If the system is wholly on the cash basis, Column 4 would be omitted, as it would duplicate Column 2 entirely.

For items in which the revenue to date, as per Column 2, exceeds the amount of the estimate in Column 1, a "credit" balance would be extended; this would be deducted from

the total of the other items in arriving at the total of the fund or of the column. A similar treatment would be accorded new revenue items not included in the budget estimate. Column totals must check and balance in the manner herein described.

It is observed that the total of Columns 4 and 5 does not equal that of Column 2. This is because the amounts entered for taxes in Column 2 are the amounts credited to Revenues and represent levy less provision for uncollectible taxes. Columns 4 and 5, however, cover the entire levies without deduction. If it is desired to have a statement that proves across arithmetically in all respects a sixth column can be added between the columns now numbered (4) and (5). This column can be headed "Estimated Losses and Other Adjustments." In it can be placed all items that do not properly belong in one of the other columns but do affect the final balance. Additions and deductions can be designated by plus and minus signs or by the use of red and black ink as may be desired. In this manner complete arithmetical proof of the statement may easily be obtained.

Revenues for Fiscal Period. The Statement of Realization of Revenues is designed primarily for use during the fiscal period. It shows the progress being made in the realization of each item as of the date of the statement. When the fiscal period has closed, these details are less important, and the principal information needed is the actual amount of revenue of the period from each source. This appears in Column 2 of the statement and comes from the credit side of the revenues accounts. A comparison with the budget estimate (and, possibly, information as to what has been collected and what is still outstanding) may also be desirable.

Consequently, a statement of revenues for a fiscal period may consist of a list of the revenue items and the amounts estimated and realized from each. The question may arise as to when an item of revenue is actually realized, since it may be represented not only by cash but also by receivables

or other liquid assets. In public bodies, limitations are placed on borrowing which make it more difficult to raise cash, except through actual collection of revenues, than may be true in private business. Working capital in public bodies can arise only from surplus of revenues of prior periods, which also is necessarily limited. Thus it is important that revenues be realized in cash as promptly as possible and that they be recorded so as to reveal what part of revenues have been so realized.

Obviously the entering of a tax levy as a revenue does not actually mean the realization of that revenue for use, except to the extent to which money may be borrowed against the tax levy.

In this book, as already indicated, revenue items that are assessed in advance of collection are treated on an accrual basis. The method of dealing with these and other items on a cash basis entirely, however, is described.

There are many advantages, aside from its merit from the standpoint of good accounting, in following the accrual principle to the extent applicable, in contrast to the "cash basis" of accounting and reporting frequently found in governmental bodies. By the accrual principle, revenues are related to the period for which they were assessed and for which they are intended to provide. Expenses are related to the period in which they are incurred and in which values are received. The cash basis of operation does not make these results possible, and it often brings about considerable distortion in the financial picture. For example, items that relate to a given period are frequently collected or disbursed in a different period, and hence they are reported only in that period. Also such items as receipts of money from loans, disbursements for payment of short-term loans, purchase of stores or investments are included with and not distinguished from revenues and expenditures.

When the accounting is on an accrual basis, it is important to distinguish between revenues arising out of various fiscal periods. When tax levies, for example, have been entered as receivables in the periods in which levied, and after

allowing for estimated losses they have been credited to revenue accounts, amounts collected in subsequent periods are simply credits to receivable accounts and do not affect the revenue accounts of those later periods. When this is not done, however, all receipts from taxes, for example, in a given year, are accounted for and reported as tax revenues of that year.

CHAPTER VII

CASH RECEIPTS

Definition. Cash receipts of a governmental body include all sums of money coming into its possession during a stated period, from every source and for every purpose.

Cash receipts of a fund include all money received into that fund during a stated period, from whatever source. The accounting must be on such a basis as to classify all cash receipts among the funds to which they belong, and to show at all times the amount of cash on hand belonging to each fund.

Classification. Cash receipts may be classified broadly under (1) revenue receipts; (2) non-revenue receipts.

Revenue Receipts. Revenue receipts are those receipts of cash that relate to revenues. (See Chapter VI.) Such receipts represent either (1) the collection of revenues already billed and entered as receivable; or (2) the collection of revenues simultaneously with their entry as revenue. Since balances in receivable accounts may be collected in a period subsequent to that in which they were entered, revenue receipts under such circumstances may apply to the revenues of two or more fiscal periods and should be so classified.

The term "revenue receipts" is not synonymous with "revenues" unless the accounting for revenues is on a cash basis. Otherwise, revenue receipts include only those amounts of revenue which are collected during the particular period.

Non-Revenue Receipts. Non-revenue receipts are those receipts of cash that do not relate to revenues. The more common items falling under this heading are as follows:

1. *Loans.* This consists of money borrowed for either current or capital purposes, which, as already stated, increase liabilities to the same extent that they increase assets; also any accrued interest on such loans received in connection with the sale of loan obligations dated prior to the date of sale.

2. *Sale of Fund Assets.* Examples are sales of fixed property held by a fund, investments, and stores carried in inventory accounts. This is simply a conversion of one asset into another.

3. *Refunds and Rebates.* This might be refunds on payments made in error. These items should be treated as offsets to the corresponding payments.

4. *Surplus Receipts.* This includes money received on accounts of previous periods which have been written off as uncollectible and sales of old equipment or other fixed assets, which are not carried as assets of the fund, but are accounted for in the Fixed Assets and Liabilities section. Although such receipts increase expendable surplus, they do not relate to operations of the current period and are therefore not revenues of that period.

5. *Assessments and Reimbursements.* Included here are assessments and other charges collected from property owners for improvements chargeable against those properties. Such items are considered by the authors as reimbursements for expenditures already made by the government out of borrowed funds, and not as revenues.[1]

6. *Endowment Gifts.* This includes additions to permanent funds, the principal of which is not to be expended.

7. *Trust and Agency Receipts.* Examples are deposits, taxes collected for other governments, funds expendable for restricted purposes not governmental, and funds of intestate estates.

Receipts of Revenue Funds. The receipts of a revenue fund include

A. Revenue receipts (as already described).
B. Non-revenue receipts, as follows:
  1. Loans:
    (*a*) Temporary, to be repaid within the fiscal period.
    (*b*) Long-term, necessary on account of deficits incurred in operation or on account of emergencies.

[1] See reference to method of treatment by United States Bureau of the Census, Chapter VI.

2. Sale of investments or stores, acquired and held as an asset of the fund.
3. Refunds of payments made in error, etc.
4. Surplus receipts, or items which increase expendable surplus but which are not revenue items of the period in which received.

Responsibility for Cash Collections. Procedure and records for the handling of cash should provide for strict accountability for all cash collected by any officer and for the means of complete verification. All receipts should be deposited immediately and in full in the treasury or other official depository, to the credit of the government to which they belong. Under no circumstances should any money thus collected be used either temporarily or permanently by the collecting officer to meet expenditures. All expenditures of every kind should be covered by warrant against the treasury.

To facilitate the handling of business, it is often necessary to establish a working fund in the hands of the collecting officer to be used for change or perhaps for meeting petty expenditures. This fund operates as a revolving fund, and reimbursement is made regularly to the officer holding it, by warrant against the proper fund and appropriation, on presentation of regularly approved vouchers which have been paid by him from the fund. (See Chapter IX.)

Accounting Records of Cash Receipts. Adequate records to record governmental receipts should include the following forms or their equivalent to provide the information indicated:

1. *Multiple Billing Forms,* on which the account has originally been levied or rendered, in case the levy has been made in advance of collection. They must be accounted for both in the accounting department and in the collecting department.

2. *Multiple Receipt Forms,* which acknowledge receipt of payments on bills rendered or other items. They may be combined with the *multiple billing forms,* described under 1, in accounts rendered in advance. All forms should be numbered serially and accounted for strictly.

3. *Cash Receipts Voucher or Recapitulation,* being a daily or periodical summary of all receipts as represented by duplicate copies of the multiple forms just described. This voucher is the basis for accounting entries. A receipt or receipts from the depository should be available, showing the deposit of the full amount collected.

4. *Cash Receipts Journal,* a columnar journal to receive entries of cash receipts vouchers, and in which the receipts are adequately analyzed (*a*) by funds; (*b*) by sources.

It is noted that the "Cash account" of the government consists of the accounts with cash under the various funds. The Cash Receipts Journal, therefore, must have an analysis of its *debits* by *funds* and of its *credits* by *sources.* The posting of column totals is made periodically to the *debit* of respective cash accounts and to the *credit* of respective accounts affected, such as Accounts Receivable, Revenues, and Loans.

Accounting for Revenue Receipts. Accounting entries necessary for receipt of revenues already entered as receivable (see Chapter VI for complete illustrative entry) are

In General Ledger, from Cash Receipts Journal:
Dr. Cash
Cr. Accounts Receivable
In subsidiary Accounts Receivable Ledger or Record:
Cr. Individual account

Entries necessary for receipt of revenues simultaneously with their levy and therefore on a cash basis (see Chapter VI for complete illustrative entry) are

In General Ledger, from Cash Receipts Journal:
Dr. Cash
Cr. Revenues
In subsidiary Revenue Ledger:
Cr. Individual revenue account affected

Revenues collected in advance of the period to which they belong should be carried to a deferred account and retained there until the period begins. The entry on their receipt would be

Dr. Cash
Cr. Revenues (for period) collected in advance

On the opening of the proper period:

Dr. Revenues collected in advance
Cr. Revenues

Accounting for Receipts from Loans. Loans are described as "temporary" when they are to be repaid out of the revenues of the current fiscal period. They may be in the form of *notes, revenue bonds,* or *tax anticipation notes.*

(1) For receipt of cash from temporary loans
(from Cash Receipts Journal):
General Fund
General Ledger

Dr. Cash	$5 000	
Cr. Temporary Loans Payable (describe)		$5 000

In subsidiary register:
Detailed record of each obligation entered into.
Separate accounts should be kept with notes, revenue bonds, anticipation notes payable, etc.

Short-term obligations of local governmental bodies ordinarily may be issued only as a lien against certain tax levies, and only to the extent of a certain portion of those levies. When liens are created in this manner, all financial reports should show that the balances of taxes receivable are so pledged. When collections are made from such levies, the money received should be applied immediately against outstanding obligations issued against them. If any such money is on hand and not so applied at the date of a financial statement, this fact should be stated.

Cash secured through the issuance of obligations in anticipation of tax collections in effect represents the realization of that amount of revenue from this source and may be so accounted for and reported (see Morey and Diehl, Appendix E).

When long-term obligations are entered into in order to provide funds for *current operations* or for emergency expenses, it is an evidence that a deficit in revenue funds exists, owing to the failure of revenues to meet current obligations. The deficit is then said to be "funded." It still must be met out of revenues but not out of the revenues

of the current period. The obligation, therefore, appears as a part of the accounts for fixed liabilities, and is either included in the Fixed Assets and Liabilities group or is set up in the accounts of the fund to which it relates, in the manner described in Chapter XVIII.

When interest, accrued on obligations issued, is received from the purchaser or party from whom funds are borrowed, the amount received as accrued interest should be credited to a reserve account for Accrued Interest Received on Loan Obligations Sold, to be charged off when the interest is paid on the obligations at the next regular interest date.

Interfund Obligations. Money sometimes is borrowed from one fund to meet the demands of another fund for cash. Such items should always be entered as resources and obligations of the respective funds, in this manner:

(2) For interfund loan		
(from General Journal):		
General Ledger		
General Fund (lending)		
Dr. Due from Special Fund	\$3 000	
Cr. Cash		\$3 000
A Special Revenue Fund (borrowing)		
Dr. Cash	\$3 000	
Cr. Due to General Fund		\$3 000

Interfund resources and obligations should always appear in the fund balance sheets in order that the true condition of each fund may be clearly shown.

If possible, transfers between funds should be accomplished without the issuance of warrants, so that these transactions do not appear as disbursements. When thus handled, the entries appear in the General Journal, as herein indicated, instead of in the Cash Receipts Journal and the Warrant Register. In statements of receipts, transfers should be shown separately. (See Statement 5.)

Sale of Stores or Investments. The handling of stores accounts is treated in Chapter XI in detail. When stores are acquired and held as an asset of a fund, it is obvious that a sale of such stores at book value simply involves a change in the form of the asset, whereby the inventory

account is reduced and receivables or cash increased. The same is true with respect to the sale of investments. When investments are held as an asset of a revenue fund, and are sold, the entry will be

For sale of investments:
  In General Ledger (from Cash Receipts Journal)
    Dr. Cash
    Cr. Investments (book value)
        Revenues (for interest received)

If premium or discount was set up at the time of purchase, a portion of the interest must be applied toward amortization. (For discussion, see Chapter XVI.)

Refunds. When a payment has been made partly or wholly in error, and the amount is returned, the fund and account affected by the original transaction should be credited accordingly, if possible. For example, if the item represented an expenditure of the current period, the entry should be:

(3) For receipt of refund[1] (from Cash Receipts Journal):		
General Ledger		
General Fund		
Dr. Cash	$18	
Cr. Expenditures		$18
In subsidiary Appropriation Ledger		
Cr. Individual Appropriation account (see Chapter VIII)		
General Administration		$18

If it is legally or otherwise impossible to credit a refund back to the appropriation account, it should be credited to Refunds, which account, at the end of the fiscal period, is closed into Unappropriated Surplus.

When a report is made of the expenditures under this appropriation and fund, refunds should be deducted from the expenditures. (See Chapter XIX.)

Surplus Receipts. Surplus receipts consist chiefly of the realization on accounts receivable, previously written off and not now carried as an asset (this may occur only when

[1] Record of the expenditure to which this relates is in Chapter VIII.

the accounting system is on the accrual basis), refunds of payments made in a prior period, and sale of fixed assets. In the last case, entries in addition to those described herein are necessary in the Fixed Assets and Liabilities as per Chapter XVIII, Item 5.

(4) For surplus receipts
(through Cash Receipts Journal):
General Ledger
General Fund

Dr. Cash		$500	
Cr. Surplus Receipts			$500
Old accounts	$200		
Sale of property	300		

In the fund Balance Sheet, Surplus Receipts should be added to Unappropriated Surplus until closed into it at the end of the fiscal period.

Receipts of revenues of former periods, not entered as revenues in those periods, if of minor amount, may be credited to Revenues in the period in which collected in place of being accounted for separately as surplus receipts.

Separate general ledger accounts should be opened for Surplus Receipts in each revenue fund, to be credited with the receipts from the Cash Receipts Journal, and closed at the end of the fiscal period into Unappropriated Surplus. One or more accounts of this kind may be necessary for a given fund, depending on the variety and volume of transactions.

General Ledger Accounts. The accounts in the General Ledger, after giving effect to the transactions described in this chapter, appear as follows:

GENERAL FUND ACCOUNTS

CASH

Revenue receipts (Chapter VI)	$8 300	(2) Transfer to Special Fund	$3 000
(1) Temporary loans	5 000		
(3) Refund	18		
(4) Surplus receipts	500		

GENERAL FUND ACCOUNTS (*Continued*)

Taxes Receivable

Amount levied (Chapter VI)	$52 300	Amount collected (Chapter VI)	$5 600

Estimated Uncollectible Taxes

		Amount of reserve (Chapter VI)	$2 092

Due from Special Fund

(2) Loan	$3 000		

Estimated Revenues

Budget estimate (Chapter V)	$75 000		

Revenues

		Revenues realized (Chapter VI)	$52 908

Temporary Loans Payable

		(1) Loans made	$5 000

Appropriations

		Budget appropriations (Chapter V)	$72 500

Expenditures

(See Chapter VIII for other entries)		(3) Refund	$18

Surplus Receipts

		(4) From old accounts	$200
		From sale of property	300

Unappropriated Surplus

Appropriations (Chapter V)	$72 500	Estimated revenues (Chapter V)	$75 000

ACCOUNTS OF A SPECIAL REVENUE FUND

Cash

Revenue receipts (Chapter VI)	$5 400		
(2) Transfer from General Fund	$3 000		

Taxes Receivable

Taxes levied (Chapter VI)	$41 400	Taxes collected (Chapter VI)	$4 100

Estimated Uncollectible Taxes

		Reserve (Chapter VI)	$1 656

Estimated Revenues

Budget estimate (Chapter V)	$50 000		

Revenues

		Revenues (Chapter VI)	$41 044

Due to General Fund

		(2) Loan	$3 000

Appropriations

		Budget appropriations (Chapter V)	$49 000

Unappropriated Surplus

Appropriations (Chapter V)	$49 000	Estimated revenues (Chapter V)	$50 000

Fund Balance Sheets. The balance sheets of the respective funds now appear as per Statement 4. They differ from the balance sheets presented at the end of Chapter VI chiefly in the addition of the accounts showing interfund obligations and of the account of Loans Payable. The method of showing Surplus Receipts in a current balance sheet is also illustrated.

STATEMENT 4—FUND BALANCE SHEETS

General Fund

Cash		$10 818	Loans Payable		$ 5 000
Taxes Receivable	$46 700 *		Appropriations [2]		72 518
Less Uncollectible	2 092	44 608	Unappropriated Surplus	$2 500	
Due from Special Fund		3 000	Surplus Receipts	500	3 000
Estimated Revenues [1]		22 092			
		$80 518			$80 518

A Special Revenue Fund

Cash		$ 8 400	Due General Fund	$ 3 000
Taxes Receivable	$37 300		Appropriations [2]	49 000
Less Uncollectible	1 656	35 644	Unappropriated Surplus	1 000
Estimated Revenues [1]		8 956		
		$53 000		$53 000

* $5,000 pledged for loans.

Statement of Receipts. The Statement of Receipts should be prepared regularly, showing all receipts by source, for all funds. A suitable form for this purpose is shown as Statement 5. It is noted that the receipts are first classified as to "revenue" and "non-revenue" and then by particular "source." A separation of revenue receipts is made for different fiscal periods. Columns are provided for each fund. Item and fund totals are also shown.

After the grand total of receipts of all kinds has been shown, transfers between funds are then shown as a separate item. Transfers *out* of a fund are shown as deductions from the cash receipts of that fund; transfers *into* a fund are shown as additions to its cash receipts. In this way the grand total of cash receipts of the government is not augmented by transfers between funds. Different types of transfers should be separated from one another; for

[1] Show revenues as a deduction.
[2] Show encumbrances and expenditures as deductions.

STATEMENT 5—STATEMENT OF RECEIPTS

Source	General Fund	A Special Revenue Fund	Total
I. REVENUE RECEIPTS:			
Current Period			
1. Taxes	$5 600	$4 100	$9 700
2. Licenses	1 500		1 500
3. Fines	1 200	1 300	2 500
Total	$8 300	$5 400	$13 700
Previous Periods			
Future Periods			
II. NON-REVENUE RECEIPTS:			
1. Loans	$5 000		$5 000
2. Old accounts	200		200
3. Surplus property	300		300
4. Refund	18		18
Total	$5 518		$5 518
Grand Total	$13 818	$5 400	$19 218
III. TRANSFERS:			
1. Interfund loan	−3 000	+3 000	
Net Total	$10 818	$8 400	$19 218

example, interfund loans, permanent transfers, stores and services.

The information for this statement comes from the Cash Receipts Journal, and the statement should check with the cash accounts of the various funds. Receipts of all funds are to be included in the Statement of Receipts, including the various types of funds described in later chapters. If the accounts are kept on a cash basis, the amount of "revenue receipts" in this statement represents the revenue of the period to date. Otherwise it represents only the revenues *collected* to date (see Column 4 of Statement 3).

If revenues of two or more fiscal periods have been collected, the statement should be further subdivided to show each period separately. This subdivision is unnecessary if the accounting for revenue is on a cash basis, since in that circumstance all revenues collected are entered as revenues of the current period.

Procedure for the reconciliation of receipts as per the accounting records and for deposits as per the treasury records is discussed in Chapter IX.

The Statement of Receipts should be clearly differentiated from the Statement of Realization of Revenues (Statement 3). The latter deals only with revenue items and, unless the accounting is on a cash basis, includes both accruals and collections. The Statement of Receipts covers only cash receipts, but includes all types of receipts. It should be looked upon not as a report of revenues realized but only as an accounting for cash received.

Control of Cash Receipts. Wherever money is collected, provision should be made for adequate control and verification. Features of continuous internal audit of governmental receipts should include: setting up of controlling accounts for all accounts receivable; bills or receipt forms independently issued to collecting officer and accounted for in full by him; daily balancing of cash in all collecting offices; deposit of all cash receipts in full in the treasury as promptly as practicable; independent verification and reconciliation of records of collecting officers and of treasury; regular verification of uncollected accounts against balances in controlling accounts; verification of such items as interest, penalties, etc. Wherever feasible, a machine control over total cash received is desirable, providing for recording each sum received and concurrent imprinting of the amount on a receipt form.

The internal audit and control should be supplemented by periodical and comprehensive independent post-audit. Such an audit should cover all revenues and receipts, regardless of where or by whom they are collected or held

in custody. Its scope and extent will depend on the nature and completeness of internal check and control.

A wide variety of practices is found in different governments as to the organization and procedure for the collection and deposit of money. In many instances this procedure is centralized and unified more or less in the manner described herein. In other cases, money is collected and disbursed by sundry officers, who either retain balances in their possession or turn in only net receipts periodically to a central officer. Although this is bad practice, it is authorized by law in some places and therefore must be recognized in the accounts and reports. Amounts of such transactions and balances should be assembled and, if possible, included in interim reports during the fiscal year. In any event, they should be included in the annual reports. Disbursements made in this manner should be entered as expenditures and collections should be entered as revenue or non-revenue receipts as the case may be. Balances in the hands of officers should be included in the Balance Sheet. All transactions of such officers should be covered in the audit programs.

CHAPTER VIII

EXPENDITURES

Meaning and Scope. Expenditures are all those charges that result in the reduction of the net resources of an expendable fund. They include both expense and capital outlay, and also provision for the payment of long-term obligations. If the accounts are kept on a cash basis, the disbursements for these purposes constitute the expenditures. If the accounts are kept on an accrual basis, expenditures consist of all charges for these purposes, regardless of whether paid or merely incurred. (See Chapter II.) In this volume, the procedure outlined is on the accrual basis.

A clear understanding of the meaning of "expense" and "expenditures" in governmental accounting is also essential. Expense is the cost of operation and maintenance and fixed charges, irrespective of the date of payment, for which no future benefit or subsequently convertible value is received or receivable. Expenditures are amounts paid *or incurred* for all purposes, including expenses, capital outlay, and provision for retirement of debt. They differ from "disbursements" in that the latter constitute all cash paid out during a given period. By "capital outlay" is meant those expenditures which result in the acquisition of or additions to fixed assets.

The expenditures of a fund for a given period, therefore, include both expense and capital outlay. It is not possible, in making an expenditure for capital outlay, to debit Fixed Assets and credit Cash. The debit must be to an appropriation or a special fund balance and the credit to Cash. An additional entry is then necessary, either at the same time or at the end of the fiscal period, to set up the assets

acquired by this expenditure, this entry being a debit to fixed asset accounts and credit to Excess of Fixed Assets Over Fixed Liabilities. (See Chapter XVIII.) Such a procedure, as already shown, a fundamental principle of governmental accounting, is essential in order to segregate the equity represented by fixed assets from that represented by current assets available for further expenditure.

Accrual Accounting. It is even more important for expenditures than for revenues to be accounted for on an accrual plan. Charges that are payable out of the resources and appropriations of the current period, or represent expenses of that period, should be charged therein even though not yet paid. As a general policy, materials or equipment received or services rendered during a given period should be entered as expenditures of that period, except as to materials placed in central stores. If these items have not actually been paid for, they should appear as accounts payable. When only a cash receipts and disbursements plan of accounting is followed, such items may become charges against the subsequent period and thus constitute an improper and unexpected burden.

The accrual plan of accounting for expenditures, however, need not be carried to the extent necessary for profit and loss accounting. An item for which payment must be made in a given period, such as an insurance premium covering several years, may be charged in full in the period in which it is paid instead of being deferred in portions to future periods. If it has to be paid, cash must be provided, which means that revenue must have been secured and collected in this or some previous period. Hence it may be treated as an expenditure of the current period. Similarly, an item, such as bond interest falling due in a given period, may be charged in full to the period in which it is paid.

Some of the large governmental bodies, with ample working capital, operate their accounts substantially on the accrual basis, in the commercial meaning of that term. There is no objection to that procedure provided that it is consistently carried out period after period and is in general

harmony with the budget. The accounts and reports should not be operated on a basis different from the budget.

Funds Must Be Appropriated. The creation of a fund does not carry with it the authority to expend that fund. It is a fixed rule of public business that no obligation may be incurred or any expenditure made until an appropriation has been made for that purpose. Before any fund can be expended, therefore, it must be appropriated, and the appropriations made from it must correspond to its purpose. Any number of appropriations may be made from the same fund provided they are in accord with its purpose and not in excess of its net resources.

Meaning of Appropriation. An appropriation is "an authorization by the legislative body to make expenditures and to incur liabilities for specific purposes."[1] No appropriation should be made except out of some fund and after the resources necessary for it have been created. All appropriations must be accounted for under the fund to which they relate.

Appropriation accounts furnish the accounting machinery needed to limit and control expenditures of revenue funds. Appropriation accounts are found primarily in revenue funds. This chapter is devoted principally to the discussion of appropriations and expenditures of revenue funds, although some of the procedures described apply also to other funds. The full discussion of the handling of expenditures of other than revenue funds, however, appears in later chapters.

Kinds of Appropriations. There are many different classifications under which appropriations can be described. As to limit of *availability,* appropriations may be (1) fiscal period; (2) continuing or recurrent.

Fiscal period appropriations are made to meet expenditures for the purpose stated within a given fiscal period, usually annual or biennial. Unless expended within that period, they automatically lapse at the close of the period,

[1] National Committee on Municipal Accounting: *Municipal Accounting Statements,* 1941.

and any balances are closed into Unappropriated Surplus. Frequently a brief term is allowed after the close of the fiscal period in which to receive invoices for obligations incurred during the fiscal period and outstanding at the end of the period as encumbrances. At the close of this term (90 days in the State of Illinois), any unexpended balances in the appropriations lapse.

Continuing appropriations are those which, when once established by the legislative body, are automatically renewed without further legislative action, period after period, until altered or revoked. They are less frequent than fiscal period appropriations and are *very much less* desirable from the standpoint of the budget and the accounting procedure, since they lessen the possibility of thorough review at the beginning of each fiscal period and constitute a kind of "preferred claim" against budget resources. They must be included in each successive budget.

Appropriations may also be classified as to whether they are *definite* or *indefinite* in amount. Appropriations are definite when a specific amount is stated. Budget appropriations are, as a rule, definite. Appropriations are indefinite when no specific sum is stated or when an estimated sum is stated, the actual amount appropriated to consist of the total receipts from a certain source or of a certain fund for the period.

Special mention should be made of *capital* appropriations, such as appropriations for additions to fixed assets. Although this is not always the rule, capital appropriations should continue available until the purposes for which they are made have been met. Since capital appropriations do not relate to the operations of any given fiscal period, they should not lapse with fiscal periods in the same manner as appropriations for operation.

Classification by Purpose. Appropriations are usually made for one of the following:

1. Departments, providing for the current expenditures of the various departments of government.

2. Activities or projects within departments.
3. Object of expenditure, such as salaries, equipment, materials.
4. Specific purposes, such as a new building or the purchase of land.

In the accounting records, each appropriation should bear a *title* which will clearly identify it. In addition, many accounting systems have made use of *code numbers,* which readily identify the respective appropriations.

The *budget* classification of appropriations should correspond to the *departmental* classification of expenditures, which in turn should be developed with careful regard for the organization of the various activities of each governmental body.

Classification of Expenditures. In order that governmental accounts may produce the information required of them for administrative, budgetary, and publicity purposes, it is important that an orderly and uniform classification of expenditures be followed. Expenditures should be classified in sufficient detail to give all needed information concerning the government or department to which they relate. The classification should be uniform over successive periods and as to different departments within the same government. As far as possible, it should be uniform among different governments of the same kind, particularly if the financial operations of these governments are to be compared.

The most important use of a proper scheme of classification of expenditures is for budget purposes. From the standpoint of the department head, it is essential that he be able to determine the expenditures of his department for various purposes over succeeding years, on the basis of which he may estimate his requirements for future periods. The executive and financial administration must have access to a uniform classification of expenditures in order to compare past expenditures and to determine the needs of succeeding years as well as to compare expenditures of various departments. Legislative or other appropriating bodies

must depend on a uniform classification in order to produce a serviceable budget as well as to provide a basis for making appropriations. The public can be informed concerning financial operations only by means of an adequate and uniform classification of expenditures.

Basis of Classification. An adequate classification of public expenditures provides for a classification under at least five headings as follows:

1. By funds.
2. By functions.
3. By organization units and activities.
4. By character of expenditures.
5. By object of expenditures.

Funds. That expenditures must be classified by *funds* is obvious because public expenditures can be made only by expending certain funds. Consequently all expenditures fall under the funds from which they are made and, therefore, are automatically classified by funds. All statements and reports of expenditures should show classification by funds. Under each fund should appear a full classification under the other headings.

Functions. Expenditures should then be classified by *functions,* for example, general government, public safety, education. In most cases, various appropriations will be made under each of these functional headings, so that the latter become headings under which expenditures can be grouped for report and statistical purposes. The functional classification, recommended for cities by the National Committee on Municipal Accounting[1] and corresponding closely to that employed by the United States Bureau of the Census,[2] is as follows:

General government
Public safety.
Highways.
Sanitation and waste removal.
Conservation of health.
Hospitals.

[1] *A Standard Classification of Municipal Revenues and Expenditures.* (See References.)
[2] *Financial Statistics of Cities,* 1937 and subsequent years.

Charities
Correction.
Schools.
Libraries.
Education.
Interest.
Bond Redemption.
Miscellaneous (judgments, pension contributions, transfers, etc.).

Organization Units and Activities. Next to funds, the most important heading in a classification of expenditures is the one by *organization units.* It is under this heading that appropriations are most commonly made. This heading corresponds to the administrative organization of the government and is the major basis for budget making. For example, appropriations in the budget of a state are made to such departments as Finance, Agriculture, Labor, Public Welfare, Conservation, and Education. The department is the operating unit and the unit on which the possibility of efficiency and economy depends.

The accounts should reveal accurately the expenditures for each department. If expenditures for a given department are made from more than one fund, there must be suitable means of assembling these figures so that the total expenditures of the department may be readily determined. In an exhibit of expenditures by departments, all departments falling under a given function of government should be grouped together so that the grand total expenditures of that division may be known.

Frequently a given department carries on a number of different activities, the expenditures of which should be accounted for separately. For example, a state department of agriculture may have the following activities: Seed Inspection; Game and Fish; Animal Industry; Apiary Inspection; Plant Industry; Foods; Dairy Husbandry; Poultry Husbandry; and State Fair. The accounts should be classified in such a way that the expenditures for each activity are shown. The total expenditures of a department consist of the sum of the expenditures for all its activities. All expenditures that are direct outlays on account of a given department or activity should be charged to that account. There should be no "lump sum" accounts in

which certain types of expenditures for all departments are merged, such as "executive salaries," "printing," or other general classifications.

Character of Expenditures. By character of expenditures is meant whether the expenditure is for current expenses, for capital outlay, or for debt service.

By "current expenses" is meant those expenditures that are required to carry on the current activities of the government and do not result in the production or acquisition of permanent assets or in the liquidation of long-term liabilities. They are the expenditures incident to the ordinary operation of the government.

By "capital outlay" is meant those expenditures that relate to the acquisition of fixed or permanent properties, such as land, buildings and other improvements, and equipment. Expenditures for capital outlay, therefore, increase the equity represented by fixed assets of the government unless offset by liabilities which may be increased at the same time. Such expenditures must be charged to fund appropriations (or other fund accounts as in Bond or Trust and Agency Funds). In addition they are "capitalized" in the Fixed Asset and Liability account group (see Chapter XVIII).

"Debt service" covers expenditures for interest on all indebtedness and for the reduction of or provision for the payment of long-term debt obligations. Again, expenditures for reduction of long-term debt must be charged to fund appropriations (or Sinking Fund Balances) and be reflected by additional entries in the Fixed Asset and Liability group. Interest, though a current expense, should be classified separately from those expenditures relating to operation and maintenance.

In addition to the foregoing headings, an additional classification may be necessary to cover certain "special" expenditures, for example, pensions, relief, judgments.

Object of Expenditures. Under each of the above headings as to character fall a number of headings describing the *object* of expenditures. The total of expenditures for

current expenses, for example, is the sum of expenditures under each "object" of expenditure falling under the general heading of "current expenditures."

Much variation exists in the object classifications employed by different governments. Some are brief; others, like that followed by the United States Government and some of the states and larger cities, are very elaborate. The usefulness of the object classification is limited, and an attempt at too great detail and refinement is likely to yield slight return for the effort.

The following condensed classification is illustrative of what is meant by the "object" analysis of expenditures:

Current Expense

Personal Service.
Office Expense.
Printing and Publications.
Travel.
Supplies and Materials.
Repairs and Replacements.

Capital Outlay

Land.
Buildings.
Improvements Other Than Buildings.
Equipment.

Debt Service

Interest.
Payment of or Provision for Retirement of Long-term Debt Obligations.

Interest is a current expense and in some classifications is placed under that heading. However, since it is not an operating expense, there is an advantage in separating it from such items, and considering it with debt payments as a part of debt service.

General Accounting Principles. To account properly for appropriations, controlling accounts for the totals of all appropriations made from each of the various funds are needed in the General Ledger. Subsidiary to these are the individual accounts with the various appropriations, classified by funds and maintained in the Appropriation Ledger.

These accounts are credited, as has already been seen (Chapter IV) with the amounts of appropriations as made

in the budget or otherwise, Unappropriated Surplus being debited. Subsidiary appropriation accounts are charged with obligations entered into through orders and contracts and with vouchers covering such obligations as well as any other items of expenditures. Control accounts in the General Ledger under each fund, for both encumbrances and expenditures, are also maintained. At the end of the fiscal period, expenditure accounts are closed to Appropriations and unencumbered balances of appropriation accounts are closed into Unappropriated Surplus. The subsidiary appropriation accounts of revenue funds, therefore, constitute a budgetary control both over appropriation balances and over the detail of expenditures. In the preparation of a balance sheet from the General Ledger during a fiscal period, Expenditures and Appropriation Encumbrances are deducted from Appropriations. This net balance is the total unencumbered balance of all appropriations of that fund, and it agrees with the aggregate of balances of the corresponding subsidiary accounts in the Appropriation Ledger.

Accounting for Encumbrances. Appropriations act as limitations on the expenditures which may be made for various purposes. Therefore, it is necessary to account for these expenditures from the time they are first entered into in the form of orders, contracts, or other commitments. Such obligations entered into are *fund* obligations which are expected to become *real* liabilities, and eventually to be met by *expenditures*. As accounts have been set up for the estimated fiscal *resources* of funds, so accounts are set up for the estimated *obligations* of funds in the form of orders and contracts. These accounts are known as *encumbrances*, and controlling accounts may be carried for them, while the detail is recorded in the subsidiary individual appropriation accounts. It is in this way that the free or *unencumbered* balance of each appropriation and of all appropriations together is constantly known.

An adequate encumbrance control is an important factor in securing a proper accounting for all expenditures. When

a record in the form of an encumbrance is made at the time that an obligation is incurred, provision for meeting it is thus set aside out of the appropriation to which it is chargeable. It then becomes a matter of less consequence when the item is presented for payment, or whether it is set up as an accounts payable in case it is not paid promptly after the material is delivered, since the resources to cover it have been set aside.

The Machinery of Expenditure. After an appropriation is made, the steps incidental to making an expenditure from it are as follows:

1. The issuance of a *requisition* by the department head or officer in charge of the work for which the appropriation was made. This requisition is a request on the central purchasing officer to supply certain materials or equipment as listed. The requisition must show the appropriation out of which the cost is to be met, must be signed by the officer making the request, and should be approved by the head of the division of government under which this department falls.

2. The *certification of the requisition* by the accounting division, indicating that there is a sufficient balance in the appropriation to meet the proposed expenditure and that the expenditure is in accordance with the purpose of the appropriation. (See Item 4 as to entry of encumbrance.)

3. The placing of an *order* or contract for supplying materials or equipment requisitioned, this to be done by the central purchasing officer. This may consist of an order or contract with an outside concern or of an order on a service or stores department of the government.

4. The entering of the order or contract as an *encumbrance* of the appropriation to which it is chargeable. In some organizations, this entry is made from the requisition instead of from the order. A more accurate estimate usually is available from the order. If there is any lapse of time, however, between the passing of the requisition and the issuance of the order, the entry should be made from the requisition.

5. The *checking* of the goods on receipt, to determine that they are the quality and quantity ordered.

6. The preparation of a *voucher,* to be certified as follows:
   (*a*) By the person opening or examining the goods.
   (*b*) By the department head or officer who issued the requisition.
   (*c*) By the purchasing officer who placed the order or contract.

(The voucher should include an itemized statement of the invoice, or should have the invoice attached containing these details.)

7. The *auditing* of the voucher by the accounting department.

8. The *entry of the voucher,* including an entry of liquidation of the order or contract.

9. The *issuance of a warrant* against the treasury for the payment of the voucher.

10. The *payment* of the warrant by the treasury.

(In handling expenditures for personal service, the foregoing procedure would be modified to provide for time reports and records, payroll vouchers, and appropriate certifications.)

Record of Encumbrances. Records of orders or contracts at their estimated cost are maintained in the Order Register (or registers) or Contract Register. A different order register or section of the register may be maintained for different classes of orders, such as purchase orders and job orders, which are encumbrances, and all orders must be classified by funds. Each order or contract is also entered in the respective subsidiary appropriation account to which it is chargeable.

Periodically the totals of the order and contract registers are carried to the General Ledger as follows:

(1) Orders and contracts placed:

In General Ledger (monthly totals of all encumbrances under each fund in order and contract registers)

General Fund		
Dr. Appropriation Encumbrances	$837	
Cr. Reserve for Encumbrances		$837
Special Fund		
Dr. Appropriation Encumbrances	$1 200	
Cr. Reserve for Encumbrances		$1 200

In subsidiary Appropriation Ledger (post each item)
General Fund
Dr. General Administration (total of individual items posted) $837
Special Fund
Dr. Each account affected

The posting to the Appropriation Ledger is done day by day throughout the month, and the general ledger postings at the end of the month represent the totals of the subsidiary ledger postings during the month.

As described in Chapter V, the maintenance of general ledger accounts of encumbrances, such as are described herein, may be omitted. Such encumbrances may be recorded in the subsidiary Appropriation Ledger but not carried into the general ledger control accounts. Even this entry may be omitted where the volume of transactions is small and the amount of outstanding encumbrances can be determined by reference to a file of unpaid purchase orders and contracts. It may be found desirable to maintain the encumbrance control in departmental offices rather than in the central accounting office. In any event, all financial statements should show the amount of unliquidated encumbrances and the free or unencumbered balances of appropriations.

Expenditures. Expenditures from appropriations fall under two general classes:

1. Items that have been previously entered as encumbrances, such as vouchers on account of purchase orders and contracts.
2. Items that have not been previously entered as encumbrances, such as payrolls, travel vouchers, freight and express.

As items under the first class have already been entered on the basis of their respective *estimated* costs, due account must be taken of this fact and the encumbrances "cleared" from the accounts before entering the expenditure. The free balance of an appropriation is not, therefore, altered unless there is a difference between the *actual* cost and the *estimated* cost of the item.

When vouchers are certified on account of orders previously posted and entered as encumbrances, entries must be made in the order register liquidating the items previously entered as encumbrances. These entries are made at the *estimated* cost as originally entered. To post liquidated encumbrances from the order register, the following entry is necessary:

(2) Orders and contracts liquidated (or "vouchered"):

In General Ledger (monthly totals of all liquidated encumbranches under each fund at estimated cost; from order and contract registers)

General Fund		
Dr. Reserve for Encumbrances	$765	
Cr. Appropriation Encumbrances		$765
Special Fund		
Dr. Reserve for Encumbrances	$850	
Cr. Appropriation Encumbrances		$850

Entries in the Appropriation Ledger corresponding to the foregoing are made when the voucher is posted, as later described. (See Entry 3.)

Accounts, as shown, to take care of encumbrances are recommended in order to provide suitable general ledger accounts for transactions of this class and at the same time to avoid necessary adjustment in control accounts as a result of differences between estimated and actual costs. Under this plan, encumbrance accounts deal only with estimated amounts, all entries being on this basis. Necessary adjustments are made only in the detail or subsidiary accounts.

Appropriation Encumbrances account is really a part of the Appropriations account and must be so considered. On the Balance Sheet it is to be deducted from the balance of the latter account as shown in the General Ledger. It represents the "encumbered" portion of the appropriations.

Personal Service Expenditures. Control of personal service (salaries and wages) commitments may be maintained in a manner similar to orders and contracts, or in other ways. Appropriations for personal services usually

are distinct from other appropriations. Frequently they are based on detailed schedules of positions and rates. In that event, a control record should be maintained over all position items. As appointments are made, encumbrances are entered. Unused balances may be lapsed at that time, or continued available for supplementing other positions. Total commitments as represented by appointments may be carried to an encumbrance control against which payrolls may be entered. Interim reports will then show the unencumbered balance of personal service appropriations, allowing for payroll obligations to the end of the period.

Voucher Register. For the entry of vouchers, a register or registers should be provided. This register should show the following information:

Date.
Voucher number.
Name of payee.
Item (general description of what voucher covers).
Total amount.
Debits, by funds, to such accounts as Expenditures and Loans Payable.
Credits, by funds, to Accounts Payable.

Vouchers are numbered serially and entered chronologically in this register, and those chargeable to Appropriations are posted individually to individual appropriation accounts in the subsidiary Appropriation Ledger. At that time an adjustment in the free balance of each account is made for any *difference* between the *actual* and *estimated* costs in the case of vouchers on orders previously entered. Others are deducted in full from the free balance. The Voucher Register is closed and posted periodically to the General Ledger, as follows:

(3) For vouchers audited:

In General Ledger (monthly totals, from Voucher Register)

General Fund

Dr. Expenditures	$ 907	
Temporary Loans Payable	2 000	
Cr. Accounts Payable		$2 907

A Special Revenue Fund

Dr. Expenditures	$1 221	
Cr. Accounts Payable		$1 221

In subsidiary Appropriation Ledger

Dr. Individual appropriation accounts, at the same time *crediting* the account for the *estimated* costs of any items previously entered as encumbrances. Posting to the Appropriation Ledger is done day by day through the month.

(It should be noted that this entry includes vouchers for those encumbrances liquidated by Entry 2. See entries in Appropriation Ledger account, Form A, for further explanation of this relationship.)

If warrants are drawn to correspond with vouchers, the Voucher Register may also constitute the Warrant Register. If warrants are drawn at once after vouchers are audited, the Accounts Payable account may be eliminated and Cash credited at once. Handling of warrants is treated in Chapter IX.

Vouchers of revenue funds are chiefly for expenditures under appropriations. Some items, however, may not relate to appropriations, for they are not expenditures. Repayment of current loans, for example, should be charged to Temporary Loans Payable account, as herein illustrated. This would be true when other credits are decreased.

Other possible items would be:

For purchase of investments:

Dr. Investments
Accrued interest on investments purchased
Cr. Accounts Payable

If premium or discount is set up at time of purchase to be amortized out of income, additional entries will be necessary for this purpose. (For discussion, see Chapter XVI.)

For purchase of stores to be held in stock in a revenue fund:

Dr. Stores
Cr. Accounts Payable

(See Chapter XI for a full discussion of stores operations.)

For disbursements to be made for which reimbursements are expected from another governmental body:

Dr. Due from other governments
Cr. Accounts Payable

When payroll deductions are made for transfer to a retirement fund or for remittance to another agency for credit to such a fund or for tax withholding:

Dr. Expenditures
Cr. Due to other funds
or
Withholding Tax Payable

(The foregoing entry would be incorporated with the entry for the payroll, Entry 3 in this chapter.)

Transfer Debits and Credits. Interdepartmental service or transfer of material may require debits and credits between different funds. When, for example, stores held as a resource of a certain fund are issued to a department receiving appropriations from another fund, an interfund entry is necessary. This procedure is more fully described in Chapter XI. In the fund containing the appropriation to be charged, the following entry is necessary:

(4) For transfer debit, for stores (see also Chapter XI) (from Stores Order Register):

In General Ledger		
General Fund		
Dr. Expenditures	$62	
Cr. Due to Stores Fund		$62
In Appropriation Ledger		
Dr. General Administration (Transfer Debits column)	$62	

It should be noted that transfer debits are expenditures of the fund to whose appropriations they are chargeable.

Transfer credits result from service rendered to or material furnished another fund. The entry would be:

Dr. Due from other funds
Cr. Stores
or
Appropriations

Appropriation credits for such a transaction would be entered in the Credits column of the Appropriation Ledger. If the number of transactions affecting appropriations is large, a special column should be provided.

General Ledger Accounts. After the entries described in this chapter are made, the General Ledger accounts appear as follows:

GENERAL FUND ACCOUNTS

CASH

As per Chapter VII	$13 818	As per Chapter VII	$3 000

TAXES RECEIVABLE

As per Chapter VI	$52 300	As per Chapter VI	$5 600

ESTIMATED UNCOLLECTIBLE TAXES

		As per Chapter V	$2 092

DUE FROM SPECIAL FUND

As per Chapter VII	$3 000		

ESTIMATED REVENUES

As per Chapter V	$75 000		

REVENUES

		As per Chapter VI	$52 908

TEMPORARY LOANS PAYABLE

(3) Loans paid	$2 000	Loans (Chapter VII)	$5 000

ACCOUNTS PAYABLE

Dr. for warrants drawn in payment of vouchers (see Chapter IX)		(3) Vouchers audited for payment (from Voucher Register)	$2 907

(This account may be omitted if warrants are drawn immediately after vouchers are audited. The Voucher Register may then become a Voucher-Warrant Register.)

DUE TO STORES FUND

		(4) Stores	$62

GENERAL FUND ACCOUNTS (*Continued*)

Reserve for Encumbrances

(2) Estimated cost of all encumbrances for which vouchers are certified	$765	(1) Estimated cost of all orders placed, contracts entered into, etc. (from order and contract registers)	$837

Appropriations

		Appropriations made (see Chapter V)	$72 500

Expenditures

(3) Vouchers	$907	Refunds (see Chapter VII)	$18
(4) Stores (see Chapter XI)	62		

Appropriation Encumbrances

(1) Estimated cost of orders and contracts placed, or encumbrances on appropriations	$837	(2) Estimated cost of orders or contracts on which vouchers are certified	$765

Surplus Receipts

		As per Chapter VII	$500

Unappropriated Surplus

As per Chapter V	$72 500	As per Chapter V	$75 000

ACCOUNTS OF A SPECIAL REVENUE FUND

Cash

As per Chapter VII	$8 400		

Taxes Receivable

As per Chapter VI	$41 400	As per Chapter VI	$4 100

Estimated Uncollectible Taxes

		As per Chapter VI	$1 656

ACCOUNTS OF A SPECIAL REVENUE FUND (*Continued*)

Estimated Revenues

As per Chapter V	$50 000		

Revenues

		As per Chapter VI	$41 044

Accounts Payable

(Dr. for warrants issued, Chapter IX)		(3) Vouchers audited	$1 221

Due to General Fund

		As per Chapter VII	$3 000

Reserve for Encumbrances

(2) Orders and contracts liquidated	$850	(1) Orders and contracts placed	$1 200

Appropriations

		Appropriations (Chapter V)	$49 000

Expenditures

(3) Vouchers audited	$1 221		

Appropriation Encumbrances

(1) Orders and contracts placed	$1 200	(2) Orders and contracts liquidated	$850

Unappropriated Surplus

As per Chapter V	$49 000	As per Chapter V	$50 000

Fund Balance Sheet. The Balance Sheets of the respective funds now appear as per Statement 6.

STATEMENT 6—FUND BALANCE SHEET

General Fund

Cash		$10 818	Accounts Payable		$2 907
Taxes Receivable	$46 700 *		Loans Payable		3 000
Less Uncollectible	2 092	44 608	Due to Stores Fund		62
			Reserve for Encumbrances		72
			Appropriations		71 477 [2]
Due from Special Fund		3 000	Unappropriated Surplus	$2 500	
Estimated Revenues [1]		22 092	Surplus Receipts	500	3 000
		$80 518			$80 518

* $3,000 pledged for loans.

Special Fund

Cash		$ 8 400	Accounts Payable		$ 1 221
Taxes Receivable	$37 300		Due to General Fund		3 000
Less Uncollectible	1 656	35 644	Reserve for Encumbrances		350
			Appropriations		47 429 [2]
Estimated Revenues [1]		8 956	Unappropriated Surplus		1 000
		$53 000			$53 000

Accounts of resources have not been changed by the transactions of this chapter. Under obligations, however, Appropriations have been reduced by expenditures and encumbrances, and new accounts for Accounts Payable, Due to Stores Fund, and Reserve for Encumbrances have been added. The Balance Sheet now includes the principal accounts ordinarily found under a revenue fund during the course of a fiscal period.

Appropriation Ledger Form. To account adequately for the various transactions relating to individual appropriation accounts, it is desirable to use a special form, an outline of which, with representative transactions, is shown

[1] Show revenues as a deduction.
[2] Show encumbrances and expenditures as deductions.

(Form A). This form provides for the entry of items that are *encumbrances,* as well as for the entry of *vouchers* and liquidations of encumbrances, and also for the entry of items that are in the nature of *transfers,* such as stores and interdepartmental items. (See Chapters XI and XII.) Credits to an appropriation account arise out of budget appropriations, supplementary appropriations, refunds, and other special credits. The Balance column shows at any time the amount of the appropriation unmortgaged, in other words, the unencumbered balance.

The first entry in an appropriation account is the budget appropriation itself, made from the budget through the General Journal. (See Chapter V.) Entries are then made from the order and voucher registers as transactions arise. Order 32, for example, in the form given, is estimated to cost $100, and this amount is deducted from the free balance. Other orders follow and are similarly treated. On January 5, two vouchers that do not relate to orders entered are presented. These items must be deducted in full from the free balance. Voucher 64 is for Order 78, which was entered at $450. The voucher is for the same amount, and no change in the balance results. Voucher 87 is for Order 114, which was entered at $215. The voucher is for only $212, so that the balance is *increased* by the difference or $3.00. Voucher 112 is for Order 32, which was entered for $100. The voucher is for $104, so that the balance must be *reduced* $4.00. The item of January 20 represents a refund on a payment made in error, which is now credited back to the appropriation. (See Chapter VII.) The entry of January 24 represents a charge for stores issued to this department. Since the credit for this item is to another fund, it is entered as a *transfer debit.* It is an expenditure from this appropriation and is so treated in statements of the appropriation. The balance is *reduced* by its amount, $62. Encumbrances need not ordinarily be entered for stores, since the charge for them is supposed to be made at once. Encumbrances are necessary, however, where service is

rendered by another department, as on a job order. (See Chapter XII.)

Appropriation balances may be increased by (1) additional appropriations to the same account; (2) transfer credits (*q.v.*); (3) cash credits. Cash credits may result when the actual receipts from a given source are appropriated for use to the extent of the amount received, or when miscellaneous income from a certain source is added to the regular appropriation. All these entries would be made in the Credits column of the Appropriation Ledger unless the number of transactions were large enough to call for special columns.

A separate appropriation ledger account in the special form shown is necessary for every appropriation. The sum of the balances in all appropriation accounts under each fund must at all times agree with the balance of Appropriations as shown in the Balance Sheet of that fund, which represents the balance of the Appropriations account in the General Ledger less the balance of the Expenditures and Appropriation Encumbrances accounts.

Methods of Keeping Appropriation Ledger. The Appropriation Ledger may be kept in pen and ink, or it can be maintained in a very practicable way by means of a bookkeeping machine. Machines that automatically compute totals of the various columns and resulting balances are very helpful. Through the use of machine-kept accounts it is also possible to provide extra copies of the account for the information of department heads and other officials interested. These extra copies serve as monthly reports of the respective appropriations.

By means of this form, the balance of encumbrances outstanding, the total disbursements, the total credits, and the free balance are constantly computed mechanically. The differences between estimated and actual costs are also mechanically adjusted, and the total postings are constantly provable against voucher and other register footings.

Other methods of machine bookkeeping, such as the tab-

ulating (punched card) method, are also worthy of consideration.

Statement of Appropriations. Statements of appropriations should be a part of every regular financial report. A statement in the form of Statement 7 would first be pre-

STATEMENT 7—STATEMENT OF APPROPRIATIONS

Fund Appropriation	(1) Appropriations and Other Credits (Net)	(2) Expenditures	(3) Unexpended Balance	(4) Encumbrances	(5) Unencumbered Balance
GENERAL FUND:					
General Administration *	$ 5 018	$969	$ 4 049	$72	$ 3 977
Public Safety	30 000		30 000		30 000
Public Welfare	15 000		15 000		15 000
Public Works	15 000		15 000		15 000
Education	7 500		7 500		7 500
Total	$72 518	$969	$71 549	$72	$71 477
A SPECIAL REVENUE FUND:					
Recreation	$15 000	$500	$14 500	$150	$14 350
Education	34 000	721	33 279	200	33 079
Total	$49 000	$1 221	$47 779	$350	$47 429
Grand Total	$121 518	$2 190	$119 328	$422	$118 906

* See special appropriation ledger account, Form A. Other accounts in this statement are taken from Budget Schedule C, Chapter IV. Expenditure and encumbrance figures for the Special Revenue Fund represent a breakdown of those appearing in total in this chapter.

pared for all appropriations under every division of a government, segregated by funds. The totals of these statements would then be carried forward to a summary statement giving the appropriations in totals by funds and divisions. These statements are of great importance and service, since they show the condition of every appropriation.

The statement is compiled from the Appropriation Ledger. Under each fund is first listed the appropriation

FORM A

APPROPRIATION LEDGER FORM
(With Illustrative Entries)

APPROPRIATION TITLE *General Administration*
Year 19___

Notes	1 Date 19—	2 Reference	3 Number	4 Name	5 Item	6 Encumbrances Dr.	 Cr.	7 Voucher Debits	8 Transfer Debits	9 Credits	10 Balance
(1)	Jan. 1	Jour.	1	Budget Appro.						$5 000 00	$5 000 00
(2)	2	Or. Reg.	32	Smith & Co.		$100 00					4 900 00
(2)	4	Or. Reg.	78	Brown & Co.		450 00					4 450 00
(3)	5	Vou. Reg.	16	A. B. Jones	3			41 00			4 409 00
(3)		Vou. Reg.	21	Anna Brown	1			100 00			4 309 00
(2)	8	Or. Reg.	114	Jones & Co.		215 00					4 094 00
(4)	10	Vou. Reg.	64	Brown & Co. (78)	6		450 00	450 00			4 094 00
(3)	12	Or. Reg.	165	Green & Co.		72 00					4 022 00
(5)	15	Vou. Reg.	87	Jones & Co. (114)	2		215 00	212 00			4 025 00
(6)	18	Vou. Reg.	112	Smith & Co. (32)	4		100 00	104 00			4 021 00
(7)	20	Cash Rec.	12	Jones & Co. (114)	Ref.					18 00	4 039 00
(8)	24	Stores Reg.	64	Off. Sup.	2				62 00		3 977 00
	31			Totals and Proof		$837 00	$765 00	$907 00	$62 00	$5 018 00	$3 977 00

Columns

1. Date of original entry.
2. Register or book of original entry.
3. Document number.
4. Name of payee or other description.
5. Symbol or other description of item.
6. Entry of estimated cost of order in Dr. column; when paid, entry of original estimate is made in Cr. column.
7. Vouchers audited.
8. Stores or other "intramural" charges.
9. Credit items.
10. Perpetual balance.

Footings

6. Dr. Total orders placed; checks with Order Register.
6. Cr. Total orders paid (original estimate); difference between Dr. and Cr. represents orders outstanding, and checks with Appropriation Encumbrances account.
7. Total vouchers charged; checks with Voucher Register.
10. Prove as follows: $9 - (6 + 7 + 8) = 10$. Checks with Appropriations account less Appropriation Encumbrances and Expenditures.

Notes

1. Budget appropriations entry (Entry 2, Chapter V).
2. Entry of order placed (Entry 1, Chapter VIII).
3. Entry of non-purchase vouchers (Entry 3, Chapter VIII).
4. Entry of purchase vouchers paid at *same* amount as order estimate (Entries 2 and 3, Chapter VIII).
5. Entry of purchase voucher paid at *less* than estimate (do.).
6. Entry of purchase voucher paid at *more* than estimate (do.).
7. Refund for overpayment (Entry 3, Chapter VII).
8. Entry for stores order (Entry 4, Chapter VIII).

titles in that fund. For each appropriation there is then shown: in Column 1, the total of appropriations and credits, as per Column 9 of the respective account in the Appropriation Ledger; in Column 2, the expenditures, consisting of the sum of "vouchers" and "transfer debits," as per Columns 7 and 8 of the Appropriation Ledger (these may be shown separately); in Column 3 the difference between Columns 1 and 2 (the totals in each fund must agree with the balance of the Appropriations account less Expenditures account of that fund in the General Ledger); Column 4, the amount of encumbrances outstanding against each appropriation, as shown by Column 6 balance of the Appropriation Ledger (the totals by funds must correspond with the balances of Appropriation Encumbrances accounts in the General Ledger). Column 5 is the difference between Columns 3 and 4 of the statement and must agree with the balances shown in Column 10 of the Appropriation Ledger.

This form may be enlarged to provide for (1) comparative figures of expenditures of the previous period; (2) expenditures for current month or quarter and for year to date; (3) estimates of expenditures for remainder of year.

Appropriation Ledger Accounts. If lump-sum appropriations are made to departments, as suggested in Chapter IV, it is not necessary to keep separate appropriation ledger accounts with *object* headings, such as those shown in Budget Schedule C–1 (Chapter IV) and those previously outlined in the present chapter. The distribution under these headings can be accomplished by means of a periodical analysis. Column 5 of Appropriation Ledger, Form A, provides a basis for this analysis. An account must be kept in the Appropriation Ledger, however, for every separate appropriation and may be needed for each allotment. It is also desirable to maintain separate accounts for each *activity* (Budget Schedule C–5, Chapter IV).

Means of Classifying Expenditures. An expenditure is consummated when a voucher is audited, to be paid for by disbursement of cash or by transfer to some other fund. In this way the item is automatically classified as to *fund*.

The voucher indicates the appropriation to which it is charged. This appropriation is probably the appropriation of some department. Thus the expenditure is classified as to *organization unit* and as to *activity,* by being charged to some appropriation account.

The voucher should also be classified as to the object of expenditure in accordance with the items that it covers. This classification is entered in the Appropriations account in Column 5 and constitutes the basis for a periodical analysis by *object*. As above stated, each item in the classification by object falls naturally under one of the headings of the classification by *character*.

Object Analysis. Classification by object may be made in an Expenditure Analysis Ledger, which is a subsidiary record to the Appropriation Ledger of revenue funds or the corresponding expenditure records of other funds. This ledger contains an account for each account in the Appropriation Ledger. Its total must agree at all times with the sum of expenditures as shown by the Appropriation Ledger and also by the controlling Appropriations account in the General Ledger. At the end of each month all expenditures as shown in each account in the Appropriation Ledger, including both vouchers and transfer debits, are analyzed under the object classification, and the totals of each item of the classification posted to the Expenditure Analysis Ledger. Thus the entire classification of the item is accomplished.

Forms of statements of expenditures covering the various methods of classification are shown in Chapter XIX.

Fiscal Closing. Appropriations are ordinarily made for fiscal periods. Consequently any unencumbered balances in appropriation accounts at the end of these periods are to be closed into Unappropriated Surplus. The methods of closing these and other accounts at the end of the fiscal period is dealt with fully in Chapter X.

Expenditures of Other Funds. The procedure described in this chapter covers revenue funds. The operation of other expendable funds is dealt with in later chapters.

Internal Check of Expenditures. Suitable procedure should exist in every public body for the proper check of expenditures. Such a procedure consists of provision for certification by various persons before the obligation is entered into or the payment for it is made, as outlined under Machinery of Expenditure herein. This check should determine questions of legality, financial provision, and authorization. As payment actually takes place, checks should be present so that all terms are properly complied with, so that duplication does not occur, and so that the proper person or firm has received that payment.

As with receipts, the internal check of expenditures should be supplemented by an independent audit at least once each year. Suggestions relating to this audit are made in Chapter XX. Its scope will depend on the extent of the organization and the system of internal check. Because of the interest of the public in the honesty and efficiency with which public funds are expended, the independent audit of expenditures assumes a position of prime importance in the affairs of every governmental body, both large and small.

CHAPTER IX

DISBURSEMENTS; ACCOUNTS OF THE TREASURY

Function of the Treasury. The Treasury provides for the custodianship of public funds. All money received should be deposited in full at once in the Treasury, from which it can be disbursed only by warrant properly drawn and signed. The functions of the treasury department differ widely in various governments and under the provisions of various laws. In some cases it is a fully organized unit, carrying on a complete program of receiving and paying. In other cases, it is little more than the depository bank. The nature of the procedure and the accounts varies in accordance with the plan of organization. In this chapter, only the functions dealing with the receipt and disbursement of money have been considered. Where other duties and responsibilities are prescribed, suitable records and reports must be added.

Receipts. In the records of the general accounting office, as already indicated, an account with Cash is kept under each fund. This account is debited with money received belonging to the fund, and is credited with warrants issued payable out of the fund. All cash received is at once deposited, and a proper receipt of the Treasury covers every deposit made. Entries in the general accounting office relating to cash receipts already have been described. (See Chapter VII.)

Disbursements. Disbursements are made by means of warrants issued against the Treasury by the accounting or disbursing department. Every warrant must cover a certain voucher or vouchers, properly certified, audited, and

payable from the designated fund. A warrant is an order on the Treasury to pay a given sum of money. When issued it is a credit to the Cash account of a given fund.

(1) For warrants issued:		
General Fund		
Dr. Accounts Payable	$2 907	
Cr. Cash		$2 907
A Special Revenue Fund		
Dr. Accounts Payable	$1 221	
Cr. Cash		$1 221

These entries are made monthly in total from the Warrant Register.

Warrants on the Treasury if possible should be in such form that they will constitute a negotiable draft payable at the Treasury or at a designated depository. They should be countersigned and registered by the Treasury before being issued, or a list of warrants issued against it should be furnished the Treasury daily.

Another plan of accounting for warrants sometimes is followed. Under it the paid warrants are returned daily or as often as practicable by the Treasury and are then credited to the Cash account. The accounting entries under this plan would be as follows:

When warrants are issued:
For each fund
Dr. Accounts Payable
Cr. Warrants Payable
When canceled warrants are returned from the Treasury after payment:
For each fund
Dr. Warrants Payable
Cr. Cash

Interfund Transactions. Transactions between funds affect the cash accounts of both funds. As already indicated, these transactions should be effected by transfer through journal entry rather than by the issuance of warrants, and the reports should show all transfers separately.

Illustration of transactions between funds has already been given in Chapter VII. Further illustration is as follows:

(2) Repayment of part of interfund loan:

General Fund		
Dr. Cash	$2 000	
Cr. Due from Special Fund		$2 000
A Special Revenue Fund		
Dr. Due General Fund	$2 000	
Cr. Cash		$2 000

Petty Cash. Petty Cash or "imprest" funds to meet emergency or petty items should be placed in the hands of proper officers so that no payments may be made by these officers out of incoming receipts.

When a petty cash fund is advanced to officers or employees, the entry is as follows, in the fund from which the advance is made:

(3) Petty Cash Advance:

Dr. Petty Cash	$500	
Cr. Cash		$500

The officer receiving such a fund then pays from it, by check (sometimes required) or in cash, such bills as he is authorized to pay. Periodically he prepares vouchers payable to himself with receipts or other evidence attached covering the payments he has made. These vouchers are put through the regular channels of payment the same as any other expenditure (Chapter VIII), and the warrants thus issued are used by the officer to replenish his fund. The accounts opened for petty cash are not affected by these transactions.

If the amount of petty cash or other working fund exceeds a nominal sum, a reserve to cover it should be set up out of Unappropriated Surplus. This is to prevent the appropriation of a sum for which there would not be sufficient available resources to cover its expenditure. The following additional entry would be required in such a case:

Dr. Unappropriated Surplus
Cr. Reserve for Petty Cash

General Ledger Accounts. General Ledger accounts illustrating *cash transactions* only, as described in this and preceding chapters, are as follows:

GENERAL FUND ACCOUNTS

Cash

Receipts (Chapter VII)	$13 818	Transfer to Special Fund (Chapter VII)	$3 000
(2) Transfer from Special Fund	2 000	(1) Warrants	2 907
		(3) Petty Cash	500

Petty Cash

(3) Advance	$500		

Due from Special Fund

Loan (Chapter VII)	$3 000	(2) Transfer to Special Fund	$2 000

Accounts Payable

(1) Warrants	$2 907	Vouchers (Chapter VIII)	$2 907

ACCOUNTS OF A SPECIAL REVENUE FUND

Cash

Receipts (Chapter VII)	$5 400	(1) Warrants	$1 221
Transfer from General Fund (Chapter VII)	3 000	(2) Transfer to General Fund	2 000

Due to General Fund

(2) Payment	$2 000	Loan (Chapter VII)	$3 000

Accounts Payable

(1) Warrants	$1 221	Vouchers (Chapter VIII)	$1 221

Fund Balance Sheets. The balance sheets of the respective funds, after giving effect to the transactions described in this chapter, now appear as per Statement 8. (See Chapter VIII for accounts not shown in this chapter.)

STATEMENT 8—FUND BALANCE SHEETS

General Fund

Cash		$ 9 411	Loans Payable		$ 3 000
Petty Cash		500	Due to Stores Fund		62
Taxes Receivable	$46 700		Reserve for Encumbrances		72
Less Uncollectible	2 092	44 608	Appropriations [2]		71 477
Due from Special Fund		1 000	Unappropriated Surplus	$2 500	
Estimated Revenues [1]		22 092	Surplus Receipts	500	3 000
		$77 611			$77 611

A Special Revenue Fund

Cash		$ 5 179	Due to General Fund	$ 1 000
Taxes Receivable	$37 300		Reserve for Encumbrances	350
Less Uncollectible	1 656	35 644	Appropriations [2]	47 429
Estimated Revenues [1]		8 956	Unappropriated Surplus	1 000
		$49 779		$49 779

Summary of Receipts and Disbursements. A summary of the receipts and disbursements of all funds may be regularly prepared in the form of Statement 9. This is a very

STATEMENT 9—SUMMARY OF RECEIPTS AND DISBURSEMENTS

Fund	Balance Previous Report	Receipts (Statement 5)	Disbursements	Transfers (Net)	Balance This Date
1. General Fund		$13 818	$3 407	$−1 000	$9 411
2. A Special Revenue Fund		5 400	1 221	+1 000	5 179
3. ________ Fund					
Etc.					
Totals		$19 218	$4 628		$14 590

[1] Show revenues as deductions.
[2] Show encumbrances and expenditures as deductions.

useful statement because it shows the gross cash transactions of the government. Information for it comes from the cash accounts of the various funds, and the balances shown by it are the balances of those accounts. These balances are used in the reconciliation of the Treasury balances, as later described. All funds, including those described in later chapters, are incorporated in this statement.

If it is desired to show gross transfers instead of the net figure as illustrated above, two transfer columns may be used, one called Transfers In and the other Transfers Out.

Treasury Transactions. Assuming that the Treasury is a regularly organized receiving and disbursing department, the accounts required by it are ones with cash and with each depository bank and one with each fund. If warrants are registered by the Treasury before being issued, a Warrants Payable account may also be used. The entries for the more usual transactions are as follows:

(1) For amounts received by Treasury:		
Dr. Cash	$6 800	
Cr. General Fund		$4 200
A Special Revenue Fund		2 600
(2) For deposits in depository banks by collecting officers:		
Dr. Bank A	$3 295	
Bank B	3 250	
Bank C	4 055	
Cr. General Fund		$9 100
A Special Revenue Fund		1 500
(3) For deposits by Treasury:		
Dr. Bank A	$1 600	
Bank B	1 500	
Bank C	1 100	
Cr. Cash		$4 200
(4) For warrants paid by Treasury:		
Dr. General Fund	$1 100	
A Special Revenue Fund	1 000	
Cr. Cash		$2 100
(5) For warrants paid by banks:		
Dr. General Fund	$1 703	
A Special Revenue Fund	221	
Cr. Bank A		$681
Bank B		569
Bank C		674

Treasury Accounts. The accounts of the Treasury, after giving effect to the foregoing transactions, appear as follows:

CASH

(1)	$6 800	(3)	$4 200
		(4)	2 100

BANK A

(2)	$3 295	(5)	$681
(3)	1 600		

BANK B

(2)	$3 250	(5)	$569
(3)	1 500		

BANK C

(2)	$4 055	(5)	$674
(3)	1 100		

GENERAL FUND

(4)	$1 100	(1)	$4 200
(5)	1 703	(2)	9 100
Transfers	3 000	Transfers	2 000

A SPECIAL REVENUE FUND

(4)	$1 000	(1)	$2 600
(5)	221	(2)	1 500
Transfers	2 000	Transfers	3 000

The balance sheet of the Treasurer's accounts when kept in this manner would be in the form of Statement 10. The Treasurer's accounts and all statements relating thereto must cover all funds including those described in subsequent chapters as well as those included herein.

Sometimes it is not essential that the Treasury maintain separate accounts with each fund, since these accounts are kept in detail by the accounting officer. In such an event, the Treasury maintains one account instead of several fund accounts.

STATEMENT 10—TREASURY BALANCE SHEET

Cash	$ 500	General Fund	$9 497
——————Bank	4 214	A Special Revenue Fund	3 879
——————Bank	4 181		
——————Bank	4 481		
	$13 376		$13 376

If the Treasurer were authorized to make investment of any funds in his possession instead of maintaining them in cash or on deposit, an additional item of investments would be added to this balance sheet. Additional entries for purchase and sale of investments, receipt of income, and possibly accounting for premium and discount, would also appear in his accounts, as already described.

Frequently public bodies require that banks in which deposits of public funds are made pledge securities as collateral to protect such deposits. Such securities would be in the custody of the Treasurer, and a record thereof would be required.

Treasury Statement. The Treasury Statement consists of a statement of receipts and disbursements by funds for the period covered, the receipts classified by dates, and the

STATEMENT 11—TREASURY STATEMENT

	General Fund	A Special Revenue Fund	Total
Balance, previous report			
Receipts (as per detailed schedule)	$13 300	$4 100	$17 400
Total	13 300	4 100	17 400
Disbursements (as per lists of canceled warrants)	2 803	1 221	4 024
Transfers (net)	−1 000	+1 000	
Balance, date of this report	$9 497	$3 879	$13 376

disbursements supported by canceled warrants, as per Statement 11.

Reconciliation of Treasury and General Accounts. With each Treasury statement, all canceled warrants are returned to and verified by the accounting officer. A reconciliation must then be made between the balances as reported by the Treasury and the balances as shown in the general accounts. These two balances are brought into agreement by allowing for warrants issued but not yet paid by the Treasury and for other transactions entered on the books of one but not on those of the other. A statement of these differences is made in the form of Statement 12.

STATEMENT 12—RECONCILIATION OF TREASURY BALANCE

Fund	Treasury Balances (Statement 11)	Warrants Outstanding	Receipts Not Deposited	Deposits Not Entered *	Accounting Office Balances (Statement 8)
		(Deduct)	(Add)	(Deduct)	
General	$9 497	$604	$ 518		$9 411
Special	3 879		1 300		5 179
Total	$13 376	$604	$1 818		$14 590

* This represents deposits made in the Treasury but not yet recorded in the accounting office.

If Warrants Payable accounts are maintained in the accounting office, Column 2 of Statement 12 is not required. Another column might be desirable in some cases. Such a column would be for Payments Not Entered. It would contain authorized payments made by the Treasurer which had not yet been entered on the accounting office books. Such payments might include notes, bond coupons, or interest which are paid by the Treasurer upon presentation of properly authorized evidence. Regular notice of such payments should be made to the accounting office but there

might be a lapse of time, particularly at the end of an accounting period when the accounting entries might not yet have been made. The amounts in this column would obviously be an addition to the Treasurer's balance for reconciliation purposes.

CHAPTER X

REVENUE FUNDS AND THE FISCAL PERIOD

Accounts Affected by Fiscal Period. The accounts required by the budget relate to designated fiscal periods. At the end of each period, they must be closed, and new accounts opened for the succeeding period. Since these accounts are found in revenue funds, those are the funds that are affected by this requirement.

Accounts of this nature include Estimated Revenues, Revenues, Appropriations, Expenditures, and Surplus Receipts. Accounts of Cash, Receivables, Payables, and other assets and liabilities are carried forward, also balances in encumbrance accounts and any balance of Appropriations required to cover encumbrances, as well as any deferred or accrued items which may have been set up.

Estimated Uncollectible Taxes. This account may or may not be in condition to be closed at the end of the fiscal period. If the collection period corresponds approximately to the fiscal period, then it should be adjusted or closed. Taxes that cannot be collected should be charged to it and Taxes Receivable credited. If the account shows a balance in excess of the balance of the receivable, it is an indication that not all the reserve has been required. The excess, and possibly more, depending on prospects of further realization, may then be credited to Revenues. If the account shows a credit balance, it may be continued or, if considered more than needed for future losses, may be partly or wholly closed to Revenues. If there is a debit balance, then a charge must be made against Revenues to balance it or to set up a sufficient sum to meet all contingencies.

The nature of the entries, if any, to be made in accounts for taxes receivable and reserves for losses depends on cir-

cumstances. If the accounting system is on a cash basis, no problem is presented since taxes are entered as revenue only when collected. If the system is on the accrual basis, care should be taken that the amount entered as revenue is reasonably certain of collection within a reasonable period. If the balance outstanding is doubtful as to collection, the reserve against it should be made equal to the amount outstanding and both accounts carried forward. It is not desirable to write off taxes unless some flaw in the assessment is found which renders them uncollectible. Otherwise they should be carried on the books, even though delinquent, with an adequate reserve to offset them.

Revenue Accounts. Estimated Revenues account has been debited with the estimated revenue of the period. Revenues account has been credited with the actual revenue accrued. If the Estimated Revenues account exceeds the Revenues account, it indicates that the actual revenue has not reached the estimate. If the reverse is true, this is an indication that the actual revenue has exceeded the estimate. At the end of the fiscal period, the Revenues account should be closed to Estimated Revenues. The latter account then will show the results of the period as compared with the estimate. Its balance will agree with the total balance of the Revenue Ledger as to each fund. It will then be closed to Unappropriated Surplus, the revenue ledger accounts being closed at the same time.

Expenditures and Appropriations. Expenditures accounts should be closed to Appropriations when the fiscal year operations are complete. The Appropriations account then shows the *unexpended* balance of appropriations. As a general rule, the *unencumbered* balance of appropriations lapses at the end of the fiscal period. A sufficient sum should therefore be retained in the Appropriations account to cover all encumbrances as shown by the Appropriation Encumbrances account. The remainder should be closed to Unappropriated Surplus.

Balances in appropriations and appropriation encumbrances accounts after this is done are carried forward into

the succeeding year, and should carry a designation to show the year to which they belong, to distinguish them from new accounts of the succeeding year. As already indicated, the balance of Reserve for Encumbrances also is carried forward. Expenditure transactions relating to these accounts are handled in the succeeding year through them in accordance with the regular procedure. If these expenditures exceed the balance carried forward, the excess must be charged to appropriations for the succeeding year. If they are less than the amount carried forward, the sum remaining is closed to Unappropriated Surplus as soon as all transactions are complete.

Some governmental bodies follow the practice of closing all appropriation and encumbrance accounts at the end of each year, and transferring any unliquidated encumbrances to the appropriations of the next year. When this is done, no balances show in Appropriations, Appropriation Encumbranches, or Reserve for Encumbrances after closing. However, the amount of encumbrances should be shown by footnote on the fund Balance Sheet. At the beginning of the next year, entries should be made at once for all such encumbrances by debiting Appropriation Encumbrances and crediting Reserve for Encumbrances and by proper entries in subsidiary appropriation ledger accounts.

Occasionally *unencumbered* balances are carried forward to the succeeding period if it has been impossible to carry out the expenditures for which the appropriations were made. Usually this procedure occurs in connection with some special project rather than with continuing activities. In this event, the balance in the Appropriations account to be closed to Unappropriated Surplus would allow also for such items, and the remaining balance would exceed the balance in Appropriation Encumbrances.

Amounts carried forward for expenditure in a succeeding period sometimes are treated as reappropriations, and that title is also used to describe them. Such a terminology avoids duplication of appropriations for the same expendi-

ture in two different periods, when the expenditure cannot be completed in the period in which originally made.

Surplus Receipts. Surplus Receipts account should be closed at the end of the fiscal period to Unappropriated Surplus.

Unappropriated Surplus. The Unappropriated Surplus account was credited at the beginning of the period with the *estimated* revenues for the period. This item, together with the net of actual revenues for the period over estimated revenues or the reverse, has been closed back to it from the Estimated Revenues account. The *net* credits to it on account of revenue, therefore, now represent the actual revenues of the period.

It was charged at the beginning of the period with the amount appropriated in the budget, in other words, with the *estimated* expenditures. Any unencumbered balance remaining in the Appropriations account, after allowing for outstanding encumbrances, has been closed back to it after closing actual expenditures from Expenditures account. The *net* debits on account of appropriations, therefore, now represent the total expenditures and commitments of the period.

The account has also been credited with any surplus receipts which have accumulated during the period. Any reserves set up or increased during the year would have been charged to the account, and any decreases in reserves credited to it. Its balance, therefore, now represents more closely a *real* surplus or excess of the assets of the fund over its liabilities and reserves. This balance is carried forward and is available to meet appropriations of the succeeding period. If a debit balance appears, it is an evidence of the existence of a deficit, which must be made up out of revenue in future periods.

If a separate account is maintained for the estimated budget surplus of each fiscal year, such as Estimated Budget Surplus, the closing entries (which have been described and are later shown in journal entry form) will be made to it, after which it will be closed to Unappropriated Surplus.

The latter account in such a procedure is at all times the *real* surplus account of the fund.

Summary of Transactions. The more common transactions of revenue funds, all of which have been described in detail in preceding chapters, are summarized here to present a complete picture of the operation of these funds in the General Ledger:

(1) Budget estimate of revenue:
    Dr. Estimated Revenues
    Cr. Unappropriated Surplus

(2) Budget appropriations:
    Dr. Unappropriated Surplus
    Cr. Appropriations

(3) Cash receipts from temporary loans:
    Dr. Cash
    Cr. Temporary Loans Payable

(4) Loan to another fund:
    (*a*) In fund lending
        Dr. Due from Special Fund
        Cr. Cash
    (*b*) In fund borrowing
        Dr. Cash
        Cr. Due to General Fund

(5) Tax levy:
    Dr. Taxes Receivable
    Cr. Estimated Uncollectible Taxes
        Revenues

(6) Collection of old accounts or sale of old property:
    Dr. Cash
    Cr. Surplus Receipts

(7) Collection of taxes:
    Dr. Cash
    Cr. Taxes Receivable

(8) Collection of miscellaneous revenues:
    Dr. Cash
    Cr. Revenues

(9) Orders and contracts placed:
    Dr. Appropriation Encumbrances
    Cr. Reserve for Encumbrances

(10) Orders and contracts liquidated or "vouchered":
Dr. Reserve for Encumbrances
Cr. Appropriation Encumbrances

(11) Vouchers audited:
(*a*) For expenditures
Dr. Expenditures
Cr. Accounts Payable
(*b*) For repayment of current loans
Dr. Temporary Loans Payable
Cr. Accounts Payable

(12) Warrants issued:
Dr. Accounts Payable
Cr. Cash

(13) Refund on payment made in error:
Dr. Cash
Cr. Expenditures

(14) Repayment of interfund loan:
(*a*) In fund lending
Dr. Cash
Cr. Due from Special Fund
(*b*) In fund borrowing
Dr. Due to General Fund
Cr. Cash

(15) Stores furnished by Stores Fund (see also Chapter XI):
Dr. Expenditures
Cr. Due to Stores Fund

(An entry similar to 14(*b*) would be necessary when cash is transferred from the General Fund to the Stores Fund to cover an item such as 15.)

(16) Petty Cash set up:
Dr. Petty Cash
Cr. Cash

(An additional entry to set up a reserve to cover such an advance may be necessary. See Chapter IX.)

(17) Transferring of money to Sinking Fund (see also Chapter XVII):
Dr. Expenditures
Cr. Cash

(18) Transferring of money to Assessment Fund for Public Benefit (see also Chapters XIV and XVIII):
Dr. Expenditures
Cr. Cash

(19) Transferring of money and setting up payables to Utility Fund for services (see also Chapter XIII):

Dr. Expenditures
Cr. Cash
Due to Utility Fund

(20) Setting up amount to be transferred from Utility Fund (see also Chapter XIII):

Dr. Due from Utility Fund
Cr. Unappropriated Surplus

(21) Setting aside working capital for stores or service departments (see also Chapter XI):

Dr. Unappropriated Surplus
Cr. Reserve for Working Capital

(22) Paying capital over to Working Capital funds (see also Chapter XI):

Dr. Advance for Working Capital
Cr. Cash

General Ledger Accounts. For purposes of illustration, the accounts of representative revenue funds, as they might appear at the end of a fiscal period, are exhibited herein with a trial balance before closing. The amounts shown in these accounts are not based on the actual transactions used in the preceding chapters but are intended to represent the total transactions for a fiscal year. Entries to close are then given, also the balance sheet after closing, with which the new period is opened before budget entries for that period are made. A trial balance is presented of the accounts *before* making the closing entries, also a balance sheet *after* these entries are made. The Balance Sheet, Statement 14, thus shows the condition of the funds at the end of the fiscal period, which is therefore the condition at the beginning of the succeeding period, during which a similar series of transactions and entries ensues.

GENERAL FUND ACCOUNTS

Cash

(3) Loans	$ 5 000	(4) Transfer to Special Fund	$ 3 000
(6) Surplus receipts	2 500	(12) Warrants issued	37 420
(7) Taxes	51 240	(16) To Petty Cash	500
(8) Miscellaneous revenues	23 560	(17) Transfer to Sinking Fund	4 260
(13) Refunds	18	(18) Transfer to Assessment Fund	1 000
(14) Transfer from Special Fund	2 000	(19) Transfer to Utility Fund	20 000
		(22) Working Capital	7 000
		Balance	11 138
	$84 318		$84 318
Balance	$11 138		

Petty Cash

(16) From Cash	$500		

Taxes Receivable (Year)

(5) Levy	$52 300	(7) Collections	$51 240
		Balance	1 060
	$52 300		$52 300
Balance	$1 060		

Revenues

(*c*) To Estimated Revenues	$74 800	(5) Taxes	$50 208
		(8) Miscellaneous revenues	23 560
		(*b*) Unused reserve for taxes	1 032
	$74 800		$74 800

Estimated Uncollectible Taxes

(*b*) To Revenues	$1 032	(5) Reserve	$2 092
Balance	1 060		
	$2 092		$2 092
		Balance	$1 060

GENERAL FUND ACCOUNTS (*Continued*)

Due from Utility Fund

(15) From Earnings	$10 000		

Due from Special Fund

(4) Loan	$3 000	(14) Repayment	$2 000
		Balance	1 000
	$3 000		$3 000
Balance	$1 000		

Advance for Working Capital

(22) Working Capital	$7 000		

Estimated Revenues

(1) Budget estimate	$75 000	(*c*) From Revenues	$74 800
		(*f*) To Unappropriated Surplus	200
	$75 000		$75 000

Accounts Payable

(12) Warrants issued	$37 420	(11) Vouchers audited	$40 260
Balance	2 840		
	$40 260		$40 260
		Balance	$2 840

Temporary Loans Payable

(11) Vouchers audited	$5 000	(3) Loan	$5 000

Due to Stores Fund

Balance	$560	(15) Stores received	$560
		Balance	$560

Due to Utility Fund

		(19) Services	$5 000

GENERAL FUND ACCOUNTS (*Continued*)

Reserve for Encumbrances

(10) Orders vouchered	$37 400	(9) Orders placed	$40 800
Balance	3 400		
	$40 800		$40 800
		Balance	$3 400

Appropriation Encumbrances

(9) Orders placed	$40 800	(10) Orders vouchered	$37 400
		Balance	$3 400
	$40 800		$40 800
Balance	$3 400		

Reserve for Working Capital

		(21) Working Capital	$7 000

Appropriations

(*e*) From Expenditures	$66 062	(2) Budget	$72 500
(*g*) To Unappropriated Surplus	3 038		
Balance	3 400		
	$72 500		$72 500
		Balance	$3 400

Surplus Receipts

(*d*) To Unappropriated Surplus	$2 500	(6) Miscellaneous	$2 500

Expenditures

(11) Vouchers audited	$35 260	(13) Refund	$ 18
(15) Stores	560	(*e*) To Appropriations	66 062
(17) Sinking Fund	4 260		
(18) Assessment Fund	1 000		
(19) Utility Fund	25 000		
	$66 080		$66 080

GENERAL FUND ACCOUNTS (*Continued*)

Unappropriated Surplus

(2) Appropriations	$72 500	(1) Estimated Revenues	$75 000
(21) Working Capital	7 000	(20) From Utility Fund	10 000
(*f*) From Estimated Revenue	200	(*d*) From Surplus Receipts	2 500
Balance	10 838	(*g*) From Appropriations	3 038
	$90 538		$90 538
		Balance	$10 838

ACCOUNTS OF A SPECIAL REVENUE FUND

Cash

(4) Transfer from General Fund	$ 3 000	(12) Warrants issued	$45 200
(7) Taxes	38 760	(14) Transfer to General Fund	2 000
(8) Miscellaneous revenues	10 400	Balance	4 960
	$52 160		$52 160
Balance	$4 960		

Taxes Receivable

(5) Levy	$41 400	(7) Collections	$38 760
		(*a*) Uncollectible	620
		Balance	2 020
	$41 400		$41 400
Balance	$2 020		

Estimated Uncollectible Taxes

(*a*) Uncollectible	$ 620	(5) Reserve	$1 656
Balance	1 036		
	$1 656		$1 656
		Balance	$1 036

ACCOUNTS OF A SPECIAL REVENUE FUND (*Continued*)

Revenues

(*c*) To Estimated Revenue	$50 144	(5) Taxes	$39 744
		(8) Miscellaneous revenues	10 400
	$50 144		$50 144

Estimated Revenues

(1) Budget estimate	$50 000	(*c*) From Revenues	$50 144
(*f*) To Unappropriated Surplus	144		
	$50 144		$50 144

Accounts Payable

(12) Warrants issued	$45 200	(11) Vouchers audited	$47 800
Balance	2 600		
	$47 800		$47 800
		Balance	$2 600

Due to General Fund

(14) Repaid	$2 000	(4) Loan	$3 000
Balance	1 000		
	$3 000		$3 000
		Balance	$1 000

Reserve for Encumbrances

(10) Orders vouchered	$23 600	(9) Orders placed	$23 600

Appropriation Encumbrances

(9) Orders placed	$23 600	(10) Orders vouchered	$23 600

Appropriations

(*e*) From Expenditures	$47 800	(2) Budget	$49 000
(*g*) To Unappropriated Surplus	1 200		
	$49 000		$49 000

ACCOUNTS OF A SPECIAL REVENUE FUND (*Continued*)

Expenditures

(11) Vouchers audited	$47 800	(*e*) To Appropriations	$47 800

Unappropriated Surplus

(2) Appropriations	$49 000	(1) Estimated Revenues	$50 000
Balance	2 344	(*f*) From Estimated Revenues	144
		(*g*) From Appropriations	1 200
	$51 344		$51 344
		Balance	$2 344

STATEMENT 13—TRIAL BALANCE

(At End of Fiscal Year, Before Closing)

General Fund

Cash	$11 138	
Petty Cash	500	
Taxes Receivable	1 060	
Revenues		$73 768
Estimated Uncollectible Taxes		2 092
Due from Utility Fund	10 000	
Due from Special Fund	1 000	
Advance for Working Capital	7 000	
Estimated Revenues	75 000	
Accounts Payable		2 840
Due to Stores Fund		560
Due to Utility Fund		5 000
Reserve for Encumbrances		3 400
Appropriation Encumbrances	3 400	
Reserve for Working Capital		7 000
Appropriations		72 500
Surplus Receipts		2 500
Expenditures	66 062	
Unappropriated Surplus		5 500
	$175 160	$175 160

STATEMENT 13—TRIAL BALANCE (*Continued*)

A SPECIAL REVENUE FUND

(Before Closing)

Cash	$4 960	
Taxes Receivable	2 640	
Estimated Uncollectible Taxes		$ 1 656
Revenues		50 144
Estimated Revenues	50 000	
Accounts Payable		2 600
Due to General Fund		1 000
Appropriations		49 000
Expenditures	47 800	
Unappropriated Surplus		1 000
	$105 400	$105 400

Closing Entries. At the close of the fiscal period, the following entries are necessary in each revenue fund to close the fiscal accounts:

JOURNAL ENTRIES TO GENERAL LEDGER

General Fund		
(*a*) Estimated Uncollectible Taxes / Taxes Receivable } (Use if required)		
(To write off uncollectible taxes)		
(*b*) Estimated Uncollectible Taxes	$1 032	
Revenue		$1 032 S
(To close unused reserve)		
(*c*) Revenues	$74 800	
Estimated Revenues		$74 800
(To close Revenues account)		
(*d*) Surplus Receipts	$2 500	
Unappropriated Surplus		$2 500
(To close Surplus Receipts account)		
(*e*) Appropriations	$66 062	
Expenditures		$66 062 S
(To close Expenditures account)		
(*f*) Unappropriated Surplus	$200	
Estimated Revenues		$200 S
(To close Estimated Revenues account)		

(*g*) Appropriations	$3 038	
Unappropriated Surplus		$3 038 S
(To close unencumbered balance of Appropriations account)		

For items designated "S," entries must also be made in the various accounts in the respective subsidiary ledgers to adjust or close out the accounts of these ledgers.

Special Fund

Entries, similar to those preceding, are made in each special revenue fund, as shown in the General Ledger accounts already presented (pages 173–176).

STATEMENT 14—FUND BALANCE SHEET

(Revenue Funds After Closing at the End of a Fiscal Period, Showing Balances Carried Forward into Succeeding Period)

General Fund

Cash		$11 138	Accounts Payable		$2 840
Petty Cash		500	Due to Stores Fund		560
Due from Special Fund		1 000	Due to Utility Fund		5 000
Taxes Receivable	$1 060		Reserve for Encumbrances		3 400
Less Uncollectible	1 060		Reserve for Working Capital		7 000
Due from Utility Fund		10 000	Appropriations	$3 400	
Advance for Working Capital		7 000	Less Encumbrances	3 400	
			Unappropriated Surplus		10 838
		$29 638			$29 638

A Special Revenue Fund

Cash		$4 960	Accounts Payable	$2 600
Taxes Receivable	$2 020		Due to General Fund	1 000
Less Uncollectible	1 036	984	Unappropriated Surplus	2 344
		$5 944		$5 944

Alternative Method of Closing. In the illustration shown, Revenues are closed into Estimated Revenues and

Expenditures to Appropriations. Balances of these two accounts would then be closed to Unappropriated Surplus. An alternative method would be to bring closing balances of Estimated Revenues and Appropriations into one account, thus showing the net result for the year which in turn would be closed to Unappropriated Surplus.

Statement of Revenues, Expenditures, and Surplus. The operations of revenue funds for a fiscal period should be summarized in a statement similar to 15. This important statement shows the revenues and expenditures of each fund together with all other items which affect the surplus of each fund. It then shows the net balance of unappropriated surplus at the close of the year in each fund, as per the Balance Sheet.

Information for the statement comes from the unappropriated surplus accounts of the various funds. The figures of revenues and expenditures should be supported by statements giving details of each, as per Chapters VI, VIII, and XIX.

Statement 15 is a supporting statement of unappropriated surplus items in the Balance Sheet, Statement 14. Revenues and expenditures are entered as shown by these accounts and the excess of one over the other represents the results of the year's operations. Additions other than net revenue consist of surplus receipts (per account), appropriation from utility fund (see Chapter XIII), and any other additions to surplus not included in revenues. Decreases in reserves would also be added, such as reduction in working capital reserves (see Chapter XI) or decrease in Reserve for Encumbrances during the year.

Deductions consist of (1) excess of expenditures over revenues, if this condition prevails instead of the reverse; (2) increase in reserve for encumbrances (in the illustration this is the total of encumbrances at the end of the year since the statement covers the first year of a fund's operation); (3) increases in other reserves, such as addition to working capital reserve (see Chapter XI), and any other

STATEMENT 15—STATEMENT OF
REVENUES, EXPENDITURES, AND SURPLUS
OF REVENUE FUNDS

	General Fund	A Special Revenue Fund
Balance of Unappropriated Surplus at beginning of year		
Add:		
Excess of Revenues over Expenditures:		
Revenue	$74 800	$50 144
Less Expenditures (refunds deducted)	66 062	47 800
	$ 8 738	$2 344
Surplus Receipts	2 500	
Appropriation from Utility Fund	10 000	
Decrease in reserves (itemize)		
Unused balance of encumbrances at beginning of period		
	$21 238	$2 344
Deduct:		
Excess of Expenditures over Revenues (To be substituted for the first entry above if this condition exists)		
Increase in Reserve for Encumbrances	$3 400	
Increase in other reserves	7 000	
	$10 400	
Balance of Unappropriated Surplus at end of year	$10 838	$2 344

items which decrease surplus and are not included in revenues and expenditures.

Some items that may enter into this statement less often are:

Additions:
 Refunds of payments made in error in prior periods.
Deductions:
 Refunds of revenues collected in error in prior periods.

Comparison with Estimates. Comparison of actual revenues with estimates and actual expenditures with appropriations is made in statements of these items as illustrated in Chapters VI and VIII. However, this comparison may be summarized in the Summary of Revenues, Expenditures, and Surplus, if desired. In this event, a good method is to make a statement showing for each revenue fund, with columns (1) budget estimates; (2) actual operations. Statement 15A is drawn up in this manner.

STATEMENT 15A—STATEMENT OF REVENUES, EXPENDITURES, AND SURPLUS OF REVENUE FUNDS, AND COMPARISON WITH BUDGET

	General Fund		A Special Revenue Fund	
	Budget Estimate	Actual	Budget Estimate	Actual
Balance of Unappropriated Surplus at beginning of year				
Revenues	$75 000	$74 800	$50 000	$50 144
Expenditures	72 500	66 062	49 000	47 800
Excess of Revenues over Expenditures	2 500	8 738	1 000	2 344
Encumbrances outstanding at end of year		3 400		
Increase in other reserves		7 000		
Excess of Revenues over Expenditures and outstanding Encumbrances	2 500	5 338	1 000	2 344
Add:				
Surplus Receipts		2 500		
Appropriation from Utility Fund		10 000		
Balance of Unappropriated Surplus at end of year	2 500	10 838	1 000	2 344

CHAPTER XI

WORKING CAPITAL FUNDS: STORES

Working Capital Funds. Working capital funds, sometimes called "revolving" funds, are those funds established with a fixed amount of capital to take care of a manufacturing or service operation which is self-sustaining in nature. Their receipts may consist of sales of products to outside parties or of transfers from other funds. Usually no definite estimate can be made of their operations and, unless laws governing disbursements make it necessary, they are not included in budgets or in appropriation acts. The principal requirement is that the capital sums be kept intact, being represented by cash, receivables, or inventory. Therefore they are not expendable. They are most frequently employed in internal operations, to serve other departments, though they may involve transactions with outside parties.

Three classes of funds may be recognized as working capital funds:

1. Funds relating to a productive activity which are reimbursed for outlays by sales of products, as, for example, a quarry or a furniture-manufacturing enterprise of a charitable or penal institution.
2. Funds established to provide capital for a stores system, organized to maintain a central stock of supplies to be requisitioned by all departments of a government, the fund to be reimbursed for its outlays by transfers from other funds. Such a plan commonly would be followed by a large institution or municipality having many departments.
3. Funds established to provide capital for a service department, organized to render service to all departments of a government, the fund to be reimbursed for its outlays by transfers

from other funds. Examples are a construction and repair department, a printing shop, a photographic laboratory, a central garage, an asphalt plant, a grain elevator.

Funds of a similar nature are also found among trust funds in the form of loan funds. (See Chapter XV.)

Funds of Productive Activities. Working capital funds, established for productive activities, may have the following resources:

Cash.
Accounts Receivable.
Due from Other Funds.
Materials.
Work in Process.
Finished Stock.

Their obligations will consist of

Accounts Payable.
Due to Other Funds.
Capital (usually represented by advances from other funds).
Surplus.

The first step in the operation of such a fund is to provide working capital. This is done by the transfer of cash from the General Fund or occasionally by specific borrowing for this purpose. This cash is expended for materials, labor, and other costs of manufacture, all expenditures being at all times represented by inventories of materials, work in process, or finished goods. As it is sold, other assets, in the form of Accounts Receivable or Due from Other Funds, are increased and inventories are decreased. As cash is realized from these sources, the process is repeated. If a profit is made, a surplus of the fund is created, thus increasing the working capital or providing funds with which to reduce the capital furnished by the General Fund. If the profit is turned over to the General Fund, it becomes a revenue of that fund. If the enterprise is extensive, a suitable cost accounting system would be essential.[1]

[1] For a full discussion of cost accounting in a public body, see Morey and Diehl, *Municipal Accounting, Principles and Procedure.*

Funds of Stores and Service Departments. Operations of stores and service departments may be handled through the General Fund, especially when they are of minor extent. However, when the scope of operations is large, it is more satisfactory to establish one or more separate working capital funds for them. As already mentioned, this usually is done by setting aside certain sums from the General Fund and by paying them over to one or more special funds to be used as permanent capital for those activities. The accounting entries *in the General Fund,* incident to setting aside such funds, have been shown in Chapter X.

The reason for setting aside a reserve out of surplus of the General Fund in this situation is to avoid overexpending available resources of that fund. Advances to working capital funds are of a more or less permanent nature and do not constitute an asset of the General Fund that is available in cash. If no reserve is set aside out of surplus to offset it, and the full amount of surplus of the fund is appropriated, the fund would be without the resources necessary to meet expenditures of those appropriations.

Scope of Stores and Service Departments. In governmental and institutional organization it has become a common practice to organize certain departments to serve the other departments carrying on the regular functions of government. Such departments have no governmental or public function to perform but exist solely to facilitate the operations of other departments by supplying materials or rendering service in various ways. They are ordinarily under the direction of the financial or operating division of general administration. They fall commonly into two principal classes.

1. *Stores departments,* organized to maintain a wholesale stock of materials and supplies needed by various departments.
2. *Service departments,* such as the repair department, the printing department, and others already mentioned.

Nature of Accounts. The transactions of such departments do not end with these departments but eventually

are charged as expenses of the departments of government which are served or which receive and use, in actual governmental processes and operations, the materials furnished through the stores or service departments. Their expenditures, therefore, do not represent expense to the government until recharged to the department finally benefited. Until that time, expenditures on stores or service departments are really deferred charges, not expense, and therefore are not reductions in surplus.

The centralization of such transactions makes it possible to handle through a single fund all bills of purchase or payrolls, regardless of the department finally served, and then to redistribute these expenditures, when final costs are known or final distribution determined upon, to the correct funds and appropriations. In respect to supplies particularly, when purchased in wholesale quantity in advance of actual requirement, the funds and appropriations can be determined only when such supplies are requisitioned by departments in need of them. In operations involving labor, the practical difficulty of charging each workman's payroll to the various funds and appropriations necessary, if he is working on various jobs, is eliminated by the handling of the whole matter through a temporary or deferred account until the final cost is determined; at that time the proper fund and appropriation are charged in accordance with the department or activity served, and the deferred account is credited.

STORES SYSTEM

Purpose and Scope. A central stores system in a government is organized for the purpose of maintaining a stock of materials, commonly and constantly required by the various departments, so that these materials may be ready for immediate delivery whenever needed. The stores system rarely provides for the sale of materials to the general public, and problems similar to those of a retail selling establishment are therefore not ordinarily present.

Classification of Stores. Some materials that may be handled to advantage in a central stores system are

1. Stationery and office supplies.
2. Building and plant supplies.
3. Chemical and laboratory supplies.
4. Hospital supplies.
5. Food supplies.

The possibilities vary, of course, under different conditions and circumstances. These various items may be handled in separate storerooms or in different departments of the same storeroom, always under central administration. In either method of handling, accounts should be kept with each storeroom or stores department if it is at all practicable.

Procedure of Operation. In the operation of a stores system, the first step (after providing the capital for operation as already described) is the purchase of stores for stock by the central purchasing officer. These materials are held in the respective storerooms awaiting requisitions of departments. When the purchasing officer receives requisitions that can be filled from stock, he issues for each such requisition a "stores order," a copy of which with prices is returned to the accounting department to be used as a basis for charging the proper fund and appropriation and for crediting Stores.

Cost Elements and Price Basis. A governmental stores system is not operated for profit. Financially, it is expected to supply departments with materials at the lowest possible cost, and at not more than cost. Elements of cost for this purpose consist of the following:

1. The purchase or invoice cost of the goods.
2. Freight and other direct expense.
3. The expense of operation of the storeroom, including wages, delivery expense, and handling expense, and also losses resulting from shrinkage and depreciation.

The last item ordinarily does not include depreciation on capital expenditures for equipment, such as buildings or

facilities. Usually they are entered as general government expenditures and not amortized through charges to departments. They may, however, be so treated. Some governmental bodies even do not treat stores operating expense as a part of stores cost but provide for this expense by general appropriation.

In determining the price at which a given article is charged out, Items 1 and 2 can be accurately calculated for the minimum distributing unit determined upon. Item 3, however, is of such a nature that it cannot be definitely allocated to any particular article. It must be distributed, therefore, on an arbitrary basis in such a way that it is entirely disposed of. This is accomplished by means of an "overhead rate," usually based on the relation between *direct cost* (Items 1 and 2) and total *overhead* (Item 3) for a given period. In the first period of operation, an estimate is necessary. After that, the rate can and should be adjusted in accordance with the experience of the previous period. It should be kept at such a point that the amount of overhead charged to materials disbursed on departmental requisitions equals as nearly as possible the overhead cost for a given period.

Price basis of goods from stock, therefore, consists of *direct cost* plus a fixed percentage added to cover *overhead.*

Accounting Procedure. The first step in the inauguration of a stores system is the setting aside of working capital to cover the operations. Procedure for this in the General Fund has already been described. The entry for receipt of this working capital by the Working Capital Fund is as follows:

(1) To enter working capital received:

(Cash Receipts Journal)

General Ledger

Dr. Cash	$7 000	
Cr. Due General Fund for Working Capital		$7 000

When stores are ordered, purchase orders are issued the entry for which, if a General Ledger control of orders is desired, is as follows:

(2) For stores ordered:

(Order Register)		
Dr. Stores Encumbrances	$4 100	
Cr. Reserve for Encumbrances		$4 100

When vouchers are audited on above purchase vouchers, the following entries result:

(3) To liquidate purchase orders for stores received:

(Order Register)		
Dr. Reserve for Encumbrances	$2 900	
Cr. Stores Encumbrances		$2 900

(4) For vouchers on same:

(Voucher Register)		
General Ledger		
Dr. Stores	$2 920	
Cr. Accounts Payable		$2 920
Stores Ledger		
Dr. Store A	$ 810	
Store B	1 040	
Store C	640	
Store D	430	

A similar entry is made also for payment of expenses of storeroom operation:

(5) For vouchers for expense of operation:

(Voucher Register)		
General Ledger		
Dr. Stores	$150	
Cr. Accounts Payable		$150
Stores Ledger		
Dr. Store A	$40	
Store B	50	
Store C	35	
Store D	25	

(6) For warrants issued:

Dr. Accounts Payable	$2 500	
Cr. Cash		$2 500

The debit accounts with Stores and Stores Encumbrances stand as an offset to Stores Capital, and their sum must not exceed the latter. Any difference represents the *unencum-*

bered balance available to be applied to further purchases.

Accounting for Issuance of Stores. Authority for issuance of stores comes through the "stores order" issued by the purchasing department. A copy of this order, or voucher corresponding to it, with articles, prices, and total charge, is returned to the accounting department, where entry is made in the Stores Order Register. Posting is made from this register to individual appropriation accounts in the Appropriation Ledger for each stores order, entries being made in "transfer debits" column. At the end of the month the columns in the Stores Order Register are totaled and posting is as follows:

(7) To post Stores Order Register:		
General Fund (see Chapter X)		
General Ledger		
Dr. Expenditures	$560	
Cr. Due to Other Funds		$560
Appropriation Ledger		
Dr. Individual accounts		
(See Entry 4, Chapter VIII)		
Working Capital Fund		
General Ledger		
Dr. Due from Other Funds	$560	
Cr. Stores		$560
Stores Ledger		
Cr. Store A		$220
Store B		340

When thus entered, stores become current expenditures of the fund and department to whose appropriation they are charged.

These interfund accounts are distinct from the accounts relating to advances for working capital and are not to be in any way combined with them. Transfers of cash for current transactions should be made frequently, at least monthly. When a transfer is made from another fund to cover stores which are issued and are chargeable to appropriations of that fund, the usual procedure is followed:

(8) For transfer of cash to cover stores charges (General Journal)

General Ledger		
General Fund		
Dr. Due to Other Funds	$400	
Cr. Cash		$400
Working Capital Fund		
Dr. Cash	$400	
Cr. Due from Other Funds		$400

Subsidiary Records. A subsidiary ledger containing the accounts with the various storerooms or stores departments, called the Stores Ledger, is desirable. This may be an ordinary double-entry ledger, and contains an individual account with each storeroom. These accounts are respectively *debited* with (1) purchase vouchers and (2) expense vouchers, and *credited* with stores orders from the Stores Order Register. The total balances at any balancing date must agree with the net balance of the Stores account in the General Ledger.

Separate accounts may be maintained for "expense" or "overhead." This would be for the purpose of showing the amount of such expense more readily and for separating it from the purchase transactions. The charges to such expense accounts are a part of the total cost of stores at any date, and must be considered in reconciling the book value of stores to the physical inventory.

A detailed perpetual inventory record also should be maintained, in looseleaf or card form. A separate sheet is needed for each item in stock, showing quantities received and disbursed and the present quantity balance, together with information as to description, cost, price, etc. Purchase vouchers and stores orders are posted individually to it, as to quantities.

Inventories. Once each year, or more often if practicable, a complete physical inventory of all stock is taken. This inventory is checked against the perpetual inventory record, and the differences are adjusted. It is then priced at the cost price of each item. Next it is checked against

the balance for each storeroom, as shown by the Stores Ledger, and every effort made to trace and account for any considerable difference. The book balances may then be adjusted to the actual inventory balances as follows:

General Ledger

For excess of physical inventory over book balance at end of year:
Dr. Stores
Cr. Surplus

For deficit of physical inventory over book balance at end of year:
Dr. Surplus
Cr. Stores

Stores Ledger

Entries to individual stores accounts

No substantial amount of surplus should be allowed to accumulate in the Working Capital Fund. If a surplus of any considerable amount arises in any year, it should be transferred to the General Fund. The rate of overhead should also be adjusted to prevent the recurrence of this condition.

General Ledger Accounts. The general ledger accounts of the Working Capital Fund, as they are affected by the foregoing outline and transactions, are as follows:

WORKING CAPITAL FUND ACCOUNTS

CASH

(1) Cash advanced from General Fund as working capital	$7 000	(6) Warrants issued for purchase and expense vouchers	$2 500
(8) Transfers from other funds for stores issued	400		

STORES

(4) Stores purchase vouchers	$2 920	(7) Stores orders covering stores issued	$560
(5) Vouchers for expense of storeroom operation	150		

Balance (debit) represents cost of balance of stock on hand and controls the Stores Ledger. (A separate account may be kept for Expense.)

STORES ENCUMBRANCES

(2) Purchase orders for stores ordered (estimated cost)	$4 100	(3) Purchase orders for stores received (estimated cost)	$2 900

Balance (debit) represents outstanding orders for purchase of stores at estimated cost.

The accounts of Stores and Stores Encumbrances, illustrated above, appear in the current balance sheet as follows:

Stores:	
Inventory	XXX
Outstanding Orders	XXX

RESERVE FOR ENCUMBRANCES

(3) Purchase orders filled	$2 900	(2) Purchase orders issued	$4 100

SURPLUS

Charged with loss in inventory	Credited with gain in inventory

DUE GENERAL FUND FOR WORKING CAPITAL

		(1) Working capital	$7 000

ACCOUNTS PAYABLE

(6) Warrants issued	$2 500	(4) Vouchers audited	$2 920
		(5) Vouchers audited	150

DUE FROM OTHER FUNDS

(7) Stores orders	$560	(8) Transfers	$400

Stores Ledger Accounts. The subsidiary Stores Ledger contains accounts with individual storerooms or stores departments, if more than one.

Store A

(4) Purchases	$810	(7) Stores issued	$220
(5) Expenses	40		

Store B

(4) Purchases	$1 040	(7) Stores issued	$340
(5) Expenses	50		

Store C

(4) Purchases	$640		
(5) Expenses	35		

Store D

(4) Purchases	$430		
(5) Expenses	25		

Stores Reports. Monthly reports of the operations of the stores system should be prepared in the form of Statements 16 and 17.

STATEMENT 16—STATEMENT OF STORES OPERATIONS

Store-room	Previous Balance	Purchases and Expense	Stores Issued	Present Balance	Out-standing Orders	Totals
A		$ 850	$220	$630	$200	$ 830
B		1 090	340	750	600	1 350
C		675		675	400	1 075
D		455		455		455
Totals		$3 070	$560	$2 510	$1 200	$3 710
	(1)	(2)	(3)	(4)	(5)	(6)

(1) Beginning balance of Stores account, General Ledger.
(2) Total debits to Stores account, General Ledger; see also Voucher Register. If separate accounts are kept for Expense, there should be a separate column for this item.
(3) Total Credits to Stores account, General Ledger; see also Stores Order Register.
(4) Closing balance of Stores account, General Ledger.
(5) Balance of Stores Encumbrances account, General Ledger.
(6) Difference between this total and balance of Working Capital account indicates working balance if any. No deficit should be permitted.

STATEMENT 17—WORKING CAPITAL FUND BALANCE SHEET

(Covering Stores Operations Only)

Cash		$4 900	Accounts Payable	$ 570
Due from Other Funds		160	Reserve for Encumbrances	1 200
Stores:				
Inventory	$2 510			
Outstanding Orders	1 200	3 710	Due General Fund for Working Capital	$7 000
		$8 770		$8 770

General Fund Accounts. The accounts of the General Fund, as exhibited in Chapter X, *after* giving effect to the transactions described in this chapter, appear as per Statement 18. By reference to the Working Capital Fund Balance Sheet, Statement 17, the relation between the accounts of the two funds will be evident.

STATEMENT 18—GENERAL FUND BALANCE SHEET

Cash	$10 738	Accounts Payable	$2 840
Petty Cash	500	Due to Other Funds	160
Advance for Working Capital	7 000	Due to Utility Fund	5 000
Due from Special Fund	1 000	Reserve for Encumbrances	3 400
Due from Utility Fund	10 000	Reserve for Working Capital	7 000
		Unappropriated Surplus	10 838
	$29 238		$29 238

CHAPTER XII

WORKING CAPITAL FUNDS: JOB ACCOUNTING

Purpose and Scope. In governmental accounting, job accounting is used in connection with the operation of certain service departments, already mentioned in Chapter XI, to determine the cost of each item of service undertaken by these departments, on the basis of which a correct charge can be made against the department benefited; also to determine the costs of various items of operation, particularly physical plant operation, such as upkeep and repair of various public buildings and other properties, and the costs of certain types of operations, such as street cleaning and street sprinkling.

General Procedure. Job accounts are opened either by setting up a series of accounts covering the various operations to be reported upon regularly, known as "standing jobs"; or by issuing a "job order" for a special piece of work to be done. The former method is used for continuous operations, and reports of costs are made monthly; the latter is used for all other work.

The operations of a job system are best handled through a working capital fund, set up in the manner described in Chapter XI.

A subsidiary set of balanced accounts is maintained in the department office of each service department operated, while a single control account for each service department is kept in the general accounting office. The details of costs are entered in individual job accounts in the department office. In the general office, the control account is charged for all costs incurred and credited when jobs are reported as complete, the proper fund and appropriation then being charged.

The outline given herein covers the operations of *one* service department. In practice, the title "service department" would be replaced by accounts bearing the names of specific departments, such as repair department, printing department.

When a job order is issued, an estimate is made of the cost and an entry made in the general office accounts, the same as for a purchase order, a register of job orders being maintained.

(1) For job orders issued (Estimated Cost):

In General Fund—already entered and included in encumbrances in Statement 18

General Ledger		
Dr. Appropriation Encumbrances	$1 200	
Cr. Reserve for Encumbrances		$1 200
Appropriation Ledger		
Dr. Individual accounts		

In service department, open individual job account in Job Ledger

(This part of the procedure usually is not followed with respect to standing jobs. A monthly or quarterly allotment for their estimated cost, based on work programs, more commonly is made.)

Elements of Cost. Items of cost on job accounts may be classified as follows:

1. Labor—including all direct labor on account of the work or process covered by the order.
2. Material—all material actually used on the job, at purchase price or price charged from storeroom, less credit for material returned.
3. Miscellaneous—all items of direct chargeable cost not included under labor or material, such as telephone and telegraph charges and expense of plans.
4. Overhead—costs, such as salaries of foremen or clerical and office expense, which are not directly chargeable to any specific job, but which must be prorated to all jobs on some fixed basis to be determined.

Labor. The source of information concerning labor chargeable to various job accounts is the daily labor reports

of employees and foremen. These reports show names, hours, kind of work, and job distribution of the time of all workmen. They are computed at the respective rates of pay and posted in the service department office:

1. To payroll records, under individual names.
2. To individual job accounts and in total to controlling accounts, as follows:

(2) For daily labor reports:		
In service department		
General Ledger		
Dr. Jobs in Process	$2 100	
Overhead	100	
Cr. Labor		$2 200
Job Ledger		
Dr. Individual job accounts		

As certain items of labor (also material and miscellaneous) are general in nature and not chargeable to any specific job, these sums must be charged to Overhead, awaiting distribution on some fixed basis; hence the item Overhead appearing in the above entry and in subsequent entries for material and miscellaneous expense.

From the payroll records the payroll vouchers are prepared, either weekly, bi-weekly, or monthly, to be certified and forwarded to the general office, for payment and entry. Accounting entries are as follows:

(3) For payroll vouchers:		
In service department		
General Ledger		
Dr. Labor	$2 000	
Cr. General Office		$2 000
In general office		
Working Capital Fund		
Dr. Service Department	$2 000	
Cr. Accounts Payable		$2 000
Dr. Accounts Payable	$2 000	
Cr. Cash		$2 000

The account for Labor is needed in the service department office accounts for the reason that labor payrolls are

ordinarily made up only at periodical intervals whereas labor is reported and entered daily. Any balance in the account would be a credit balance and would represent the amount of labor accrued and entered in the job accounts for which payrolls had not been sent through.

Material. Material for use on job work is secured either through the stores sytem or by direct purchase. When issued through the stores system, requisitions covering materials issued to each job serve as a basis of daily charge to respective job accounts and of daily, weekly, or monthly reports to the general office on a stores order. Entries relating to material from stores are as follows:

(4) For requisitions of materials from stores for jobs:

In service department accounts		
General Ledger (daily, weekly, or monthly)		
Dr. Jobs in Process	$1 600	
Overhead	100	
Cr. Material		$1 700
Job Ledger		
Dr. Individual job accounts (daily)		

(5) For stores orders:

In service department accounts (daily)		
Dr. Material	$1 700	
Cr. General Office		$1 700
In general office accounts (daily, weekly, or monthly)		
Working Capital Fund		
Dr. Service Department	$1 700	
Cr. Stores		$1 700

For material purchased directly for jobs, the accounting procedure is the same as for miscellaneous expense (see below); in the general office, purchase orders for jobs are a charge to Service Department Encumbrances and a credit to Reserve for Encumbrances if it is desired to maintain a general ledger control for such orders.

Miscellaneous. Items of miscellaneous expense usually consist of minor vouchers in form for payment and are treated as follows:

(6) For miscellaneous expenses on jobs:
In service department accounts
General Ledger

Dr. Jobs in Process	$100	
Overhead	20	
Cr. General Office		$120

Job Ledger
Dr. Individual job accounts
In general office accounts
Working Capital Fund

Dr. Service Department	$120	
Cr. Accounts Payable		$120

Overhead. Overhead expenses are charged to a general overhead account in the service department accounts. An estimate is made of the overhead for a given period, and on this basis a fixed plan of charging overhead to jobs is determined upon. This may be a fixed percentage on direct labor cost or some other practicable basis. In such an activity as a printing department or manufacturing operation a well-organized cost system would be necessary. When any job is closed out, the amount of overhead chargeable to it on this basis is determined and the following accounting treatment used:

(7) For distribution of overhead to jobs:
In service department accounts
General Ledger

Dr. Jobs in Process	$100	
Cr. Overhead		$100

Job Ledger
Dr. Individual job accounts

The balance in the Overhead account at any time represents the amount of undistributed overhead. A careful check of this balance should be maintained and an adjustment of the rate or method of distributing overhead made whenever it appears that the undisposed-of balance is accumulating or that a surplus is arising.

Equipment in Working Capital Funds. Under some conditions, equipment and even land and buildings may be acquired by the working capital fund with the provision that

their cost be amortized out of charges made for service rendered by departments operating through that fund. In that event, the purchase of such assets would be a debit to fixed asset accounts in the Working Capital Fund and a credit to Cash. The charge on all jobs in the service department accounts would include a sum for depreciation on these assets, either as a direct charge or through Overhead account. In the general office, the service department would be charged for this depreciation, and an account for accrued depreciation credited. These entries would be continued until the cost of the asset is equaled by the credits to Reserve for Depreciation.

Completed Jobs. When all costs against a given job are in, or at the end of each month for standing jobs, the overhead is computed and entered and the job is ready to be "closed out." A Job Cost Voucher is then prepared, giving the details of cost. This voucher is entered as follows:

(8) For job cost vouchers:		
In service department		
General Ledger		
Dr. General Office	$1 220	
Cr. Jobs in Process		$1 220
Job Ledger		
Cr. Individual job accounts		
In general office		
General Ledger		
In General Fund		
(*a*) Dr. Reserve for Encumbrances	$1 200	
Cr. Appropriation Encumbrances		$1 200
(*b*) Dr. Expenditures	$1 220	
Cr. Due Working Capital Fund		$1 220
In Working Capital Fund		
(*c*) Dr. Due from Other Funds	$1 220	
Cr. Service Department		$1 220
Appropriation Ledger		
Post to individual accounts		

A chart of the procedure for job accounts is presented in Illustration IV.

Service Department Accounts. The accounts of a service department consist of a General Ledger and a subsidiary ledger for individual job accounts. The accounts of the

General Ledger in that office are more or less extensive, depending on the nature of the activity and whether a complete cost accounting system is required. For a situation not requiring such a system the accounts illustrated herewith will suffice. The account Jobs in Process is a controlling account for the subsidiary Job Ledger. The account General Office is the connecting account between these books and the accounts of the general office and must at all times agree with or be capable of reconciliation with the account for the particular service department in that office.

JOBS IN PROCESS

(2) Labor	$2 100	(8) Jobs closed	$1 220
(4) Material	1 600		
(6) Miscellaneous	100		
(7) Overhead	100		

(Controlling account for Job Ledger)

OVERHEAD

(2) Labor	$100	(7) Overhead charged to jobs	$100
(4) Material	100		
(6) Miscellaneous	20		

LABOR

(3) Payrolls	$2 000	(2) Labor reports	$2 200

GENERAL OFFICE

(8) Job cost vouchers	$1 220	(3) Payrolls	$2 000
		(5) Stores Orders	1 700
		(6) Miscellaneous expense	120

MATERIAL

(5) Stores Orders	$1 700	(4) Requisitions	$1 700

ILLUSTRATION III—SERVICE DEPARTMENT GENERAL LEDGER TRIAL BALANCE

Jobs in Process	$2 680	
Overhead	120	
Labor		$ 200
General Office		2 600
	$2 800	$2 800

The balance of Jobs in Process must agree with the sum of balances of the Job Ledger.

The balance in the General Office account must reconcile with the balance in the Service Department account in the Working Capital Fund accounts in the general office. (See Statement 19.)

Working Capital Fund Accounts in General Office. The transactions described in this chapter are handled through the Working Capital Fund in the general office, the accounts of which have already been set up in part in Chapter XI. An additional account is now required with the Service Department, but otherwise the transactions affect only accounts already opened. The account Service Department [1] agrees with or must be capable of reconciliation with the account General Office in the service department office at all times. The accounts opened in Chapter XI are shown here with effect given to the transactions in this chapter.

WORKING CAPITAL FUND ACCOUNTS

CASH

Chapter XI	$7 400	Chapter XI	$2 500
		(3) Warrants issued	2 000

STORES

Chapter XI	$3 070	Chapter XI	$ 560
		(5) Stores issued to jobs	1 700

STORES ENCUMBRANCES

Chapter XI	$4 100	Chapter XI	$2 900

SERVICE DEPARTMENT [1]

(3) Labor payrolls	$2 000	(8) Job cost vouchers	$1 220
(5) Material	1 700		
(6) Miscellaneous	120		

[1] This title is illustrative only. In practice it would be replaced by the title of the specific department covered.

WORKING CAPITAL FUND ACCOUNTS (*Continued*)

Service Department Encumbrances

Estimated cost of orders placed chargeable direct to job orders	$	Estimated cost of purchases chargeable direct to job orders, when vouchered	$

Reserve for Encumbrances

Chapter XI	$2 900	Chapter XI	$4 100
Estimated cost of orders vouchered		Estimated cost of orders placed	

Accounts Payable

Chapter XI	$2 500	Chapter XI	$3 070
(3) Warrants issued	2 000	(3) Labor payrolls	2 000
		(6) Miscellaneous	120

Due from Other Funds

Chapter XI	$ 560	Chapter XI	$400
(8) Job cost vouchers	1 220		

Capital

		From General Fund (Chapter XI)	$7 000

STATEMENT 19—WORKING CAPITAL FUND BALANCE SHEET

Cash		$2 900	Accounts Payable	$ 690
Stores:			Reserve for Encumbrances	1 200
Inventory	$ 810		Capital	7 000
Outstanding orders	1 200	2 010		
Service Department		2 600		
Due from Other Funds		1 380		
		$8 890		$8 890

General Fund Accounts. The balance sheet prepared from the accounts of the General Fund, as stated at the close of Chapter XI, after giving effect to the transactions described in this chapter, appears as per Statement 20.

STATEMENT 20—GENERAL FUND BALANCE SHEET

Cash	$10 738	Accounts Payable	$ 2 840
Petty Cash	500	Due to Working Capital Fund	1 380
Advances for Working Capital	7 000	Due to Utility Fund	5 000
Due from Special Fund	1 000	Reserve for Encumbrances	2 200
Due from Utility Fund	10 000	Reserve for Working Capital	7 000
		Unappropriated Surplus	10 818 [1]
	$29 238		$29 238

A statement of operations should be compiled regularly for each service department. Statement 21 is illustrative of a form that will meet the needs of the kind of activity described herein. For a manufacturing enterprise a more extended statement of a commercial type is needed.

STATEMENT 21—STATEMENT OF SERVICE DEPARTMENT OPERATIONS

COSTS:		
Direct (charges to Jobs in Process):		
Labor	$2 100	
Material	1 600	
Miscellaneous	100	$3 800
Indirect (charges to Overhead):		
Labor	$100	
Material	100	
Miscellaneous	20	220
		$4 020
CREDITS:		
Jobs closed out		1 220
BALANCE:		$2 800
Consisting of: Jobs in process	$2 680	
Undistributed overhead	120	
		$2 800

[1] It is assumed that the expenditure entered in this chapter has been closed and the appropriation properly adjusted.

ILLUSTRATION IV—JOB SYSTEM ACCOUNTING

Transactions	Documents	Entries: Service Department Office — General accounts	Entries: Service Department Office — Subsidiary accounts	Entries: General Office — In Working Capital Fund unless otherwise stated
Job Order			Open Account	Dr. Appropriation Encumbrances * Cr. Reserve for Encumbrances *
Costs — Labor	Daily Labor Reports Payrolls	Dr. Jobs in Process Overhead Cr. Labor Dr. Labor Cr. General Office	Dr. Individual jobs	Dr. Service Department Cr. Accounts Payable
Costs — Material	Storeroom Tickets Summaries (Stores Orders)	Dr. Jobs in Process Overhead Cr. Material Dr. Material Cr. General Office	Dr. Individual jobs	Dr. Service Department Cr. Stores
Costs — Miscellaneous	Vouchers	Dr. Jobs in Process Overhead Cr. General Office	Dr. Individual jobs	Dr. Service Department Cr. Accounts Payable
Overhead		Dr. Jobs in Process Cr. Overhead	Dr. Individual jobs	
Completed Jobs	Job Cost Vouchers	Dr. General Office Cr. Jobs in Process	Cr. Individual jobs	Dr. Reserve for Encumbrances * Cr. Appropriation Encumbrances * Dr. Expenditures * Cr. Due to Other Funds * Dr. Due from Other Funds Cr. Service Department

* In fund under which appropriation to which order is chargeable falls.

CHAPTER XIII

UTILITY FUNDS

Scope. Many municipalities and a considerable number of other governmental bodies own and operate various types of utilities for rendering service to the general public. Among these enterprises may be mentioned electrical plants, water departments, transportation systems, and other services.

These activities are of a business nature, and the accounts for them should show operating results in terms of profit or loss and their financial condition in terms of present valuation. The accounts that are needed, therefore, differ from those required for the ordinary departments of government and correspond more closely to the accounts of similar enterprises, privately owned and operated.

Nature of Funds. Separate funds are desirable to account properly for governmental utilities, and it is usually preferable to have a separate fund for each distinct utility. All the transactions which arise in connection with the utility should be recorded in this fund. This is true even though some of the transactions seem to have other characteristics, such as those of trust funds, bond funds, sinking funds, and fixed assets and liabilities. The accounts and transactions which result in entries in these funds should be handled in much the same way as would be true if the utility were privately owned. This is in contrast to some of the procedures given for other governmental funds.

Transactions having the elements of a trust in them may arise, such as when a deposit is made by a consumer, which deposit may have to be returned to him at a later date. A separate trust fund should not be set up under these conditions. The entry should be made in the Utility Fund, the

trust obligation being shown by the use of proper accounts therein.

Bonds will almost always be used in partially financing construction and improvements in the utility, so that characteristics of the Bond Fund are present. Again such transactions should be recorded in the utility fund, a separate bond fund not being used. The amount available from such issues for the designated purposes may be segregated by the proper designation within the accounts of the Utility Fund.

Cash and securities may be accumulated for the retirement of bonds issued for the Utility Fund, so that a sinking fund feature appears. Such sinking fund entries would be recorded in the Utility Fund in the same manner as in a privately owned business. A separate sinking fund in the sense of a different group of accounts should not be employed.

Fixed assets and liabilities will arise in connection with the utility. They should be entered in the Utility Fund. A separate group of accounts for fixed items should not be used for them, although the surplus should be divided in such a manner that operating profits are distinguished from surplus represented by investment in fixed assets.

It may be concluded that the accounts within a Utility Fund are distinctly complete for all of the transactions relating to that utility.

The Budget. A budget should be prepared for the utility funds as for other funds, but it should be recognized that this budget is much more likely to need revision as the fiscal year progresses. Either expansion or contraction of the services rendered, which would commonly occur would necessitate changes. Since this is true, the budget should be viewed in much the same light as one prepared for a commercial or industrial concern. The original budget should not be treated as a legal limit, nor would it be advisable to enter it in the accounts. Rather it should be a guide, carefully followed, and revised as occasion demands.

Relation to Other Funds. Service rendered by the utility to the city should be paid for by the city, and service

rendered by the city to the utility should be paid for by the utility. Advances by the city from other funds should be shown as appropriations or as loans and should be distinctly recorded in the accounts of the utility. Transfers of net income of the utility to the city should be shown as an addition to surplus of the city's General Fund and as a transfer from the Utility Fund.

Subsidization should be avoided in either direction. This is particularly true as to services rendered by the utility and as to taxes on utility properties.

Profit and Loss. The accounts of the utility should be maintained in such a manner as to show the true results of operation in terms of profit and loss. This means that, whatever kind of accounting is followed by a city or other government with respect to its other funds, the accrual basis of accounting should be followed in the utility accounts. All income should be accrued in full to the date of every financial report with due allowance for estimated losses through failure of collection. Expense should be accrued in full, including items such as labor, interest, and similar items accrued but not yet due. Items such as insurance and similar expenses, paid in advance, should be set up under deferred headings to be entered as expense of the period to which they relate.

Depreciation on the plant and equipment of the utility should be entered as operating expense, and an account for accrued depreciation should be set up to be deducted on the balance sheet from the fixed asset accounts.

Comparison with Other Plants. Care must be taken in making comparison of operating results of one plant with another, especially if one of the plants is privately operated and the other publicly operated. The first step in securing a suitable basis for comparison is a uniform method of accounting and reporting. Allowance must then be made for any items present in one plant which are missing in the other.

No brief is being made here in favor of either private or public ownership of utilities, but it must be recognized that any contentions for either must be based on sound, com-

parable accounting procedures. Subsidization may arise from faulty accounting in several ways. In many cases the utility is not required to pay any taxes to the government by which it is owned. This obviously puts the utility in an advantageous position when comparisons are made with the operating results of other utilities which have taxes as one of their regular expenses. Also, many governmental bodies do not consider the services rendered by the utility to other funds as part of the revenue of the utility. This, of course, is a disadvantage to the publicly owned utility in comparison with those where such revenues are in the accounts.

Another frequent omission is that of depreciation. Officials and taxpayers of the current period argue that, since present taxpayers or consumers are called upon to pay for bonds issued to build the plant, they should not be charged for depreciation with a view to replacing the plant at some future time. This represents a confusion of financing and accounting. Payment of bonds *is not* an operating cost and does not enter into a determination of operating results. Depreciation *is* an operating cost and must be included if correct operating results are to be shown. The statutes or debt contracts may require that rates be such as to produce an income that will result in a net balance to cover debt service after the payment of operating expenses. An accounting to meet this requirement may be made but, in addition, there should be an accounting on a true profit and loss basis, including depreciation and interest, but not including debt amortization, which will show operating results in the correct manner.

The least that can be done is to make proper adjustment for comparative purposes. Comparison alone must not be emphasized. It should be of importance to the governmental body concerned to know as accurately as possible what the operating profit or loss of the utility happens to be. To obtain such a result as well as to make adequate comparison easily available, all elements of cost and revenue should be entered into the accounts. Even when this is done, care should be taken in comparing different methods of financing different utilities before broad statements

are made as to the relative advantages of privately and publicly owned units.

Accounts. The accounts of a governmental utility should be classified in general in the same manner as those for a similar utility under private ownership and management. To that end the accounting classifications should correspond to those recommended for the various utilities by such organizations as the Federal Power Commission, the national and state associations of railway and utility commissioners, and similar organizations for the various utilities.

It is possible to illustrate herein only partially and very briefly the accounts needed for such an activity. The illustrations presented are intended mainly to show the difference in the general treatment of accounts of a utility fund and those of other government funds. They cover only the more important transactions likely to be met and the principal accounts and statements needed.

Attention is called to the division of surplus between that invested in fixed assets and that which is unappropriated. Statement 23, Analysis of Changes in Earned Surplus, shows this division. The advantage of such procedure is that it shows clearly what portion of the surplus of the enterprise is actually available as working capital or for further expansion or improvement.

The plan frequently followed is to merge all surplus in one account. This may lead to the use of cash on hand, resulting from the setting aside of depreciation provisions out of income, for new additions instead of retaining it for replacements as should be done. Such a procedure may be guarded against by "funding" all depreciation provisions and by keeping them invested or separated from current cash until actually needed for replacement.

The question of the use of cash arising out of a depreciation charge, however, depends primarily on the financial policy in each instance. If debt obligations are to be retired out of current income of the utility (as is frequently the case), usually it will not be possible to fund depreciation provisions, at least in full. A part or all of the cash accumu-

lating as a result of the entry for depreciation must be applied to debt retirement or to a sinking fund for that purpose. The remainder, if any, should be carried in a depreciation fund.

In the procedure outlined herein, the depreciation provision is funded, a sinking fund is set up (within the Utility Fund), and a reserve for the sinking fund is set up out of earned surplus. This reserve, however, is a part of surplus and will be returned to it after the Sinking Fund has been used for its intended purpose.

Debt Retirement. It is much more customary in municipal utilities to retire bonds than to refund them. When this financial policy is adopted, provision should be made for the retirement whether the bond indenture requires it or not. If the bonds are issued in series, which is uncommon with utility bonds, the retirement becomes simply a case of annually providing and immediately using the cash for that purpose. When the bonds are of a single maturity date, which is much more usual, provision should be made for the setting aside of cash annually to be used at the maturity date for the retirement of the entire issue. This cash should be set aside in a sinking fund which may be judiciously invested and then reconverted into cash and used for bond retirement purposes at the maturity date of the issue.

The proper provision for the annual contribution to the Sinking Fund need not be discussed here in detail. There are several methods by which this can be done which have been more than adequately discussed in other publications. In general the simple straight line method or the more scientific sinking fund methods may be used. In any event the cash is so provided that when the bonds fall due financial problems for the immediate provision of a relatively large amount of cash do not arise. An entry debiting the Bonds Payable account and crediting the Sinking Fund account, in whatever form it may be kept, will wipe off both the liability and the fund. Should an excess of cash exist after the retirement of the bonds this excess may be transferred

to General Cash. If the amount of cash in the fund should be deficient for the retirement, such deficiency must, of course, be supplied from the General Cash account.

Fixed Assets and Their Depreciation. Fixed assets may originally be acquired by cash obtained through bond issue or transfers from other proper funds. If the cash is obtained through a bond issue Fixed Assets is debited and Bonds Payable is credited. When the cash is obtained through transfer from another fund it must be determined definitely if the intention is to have that cash returned by some method of regular payment or if it has been a permanent transfer to provide the original capital for the utility fund. If the former is true then some sort of liability to the other fund must be set up in the utility fund with some provision for repayment being made, depending on the agreement. This agreement might involve annual payments or sinking fund provisions for deferred payments. If the transfer from the other fund is of permanent nature, then the credit should be to Equity of Governmental Body. Whenever the financing has been wholly or partially done through bonds or a loan from another fund it will be noted that Equity of Governmental Body receives no credit for that portion. Under such circumstances, whenever either form of liability is retired an entry should be made debiting Earned Surplus and crediting Equity of Governmental Body. The ultimate goal should be that when all fixed debt is retired the fixed assets of the utility will be offset equally by Equity of Governmental Body.

In utility accounting the depreciation is often funded. The major advantage in doing this is that it insures available cash when replacement is necessary. Although this is not a necessary procedure it is described briefly here since it is so often found in practice. The funded amount may be equal to that of the accrued depreciation or it may be some other amount. Often it is set up on a replacement cost basis instead of a depreciation basis. It may be set up on a scientific basis taking into consideration actual depreciation and accumulation of interest on the invest-

ments in the fund. In any event when the accrued depreciation is set up out of operating revenues the depreciation fund is set up out of cash. This requires the entry debiting Depreciation Fund and crediting Cash.

Whenever a replacement becomes necessary two entries must be made. One will debit the account carrying the accrued depreciation and credit Fixed Assets to write off the value of the asset being discarded. The second entry will debit Fixed Assets and credit the Depreciation Fund for the value of the new asset acquired. Certain adjustments may be necessary as a result of scrap values, difference in value of old and new assets, or other things, but these will not be discussed here since they are problems of general accounting adequately discussed in other volumes dealing with the subject.

Confusion between the accrued depreciation and the Depreciation Fund should be carefully avoided. The former should always carry a credit balance and in this case is a valuation reserve shown in the balance sheet as a deduction from Fixed Assets. A fund should always carry a debit balance and should be shown on the Balance Sheet as an asset. An account with a title containing both the words "reserve" and "fund" is confusing, if not an absolute contradiction.

The Fixed Asset account discussed in the preceding paragraphs is a controlling account in the General Ledger. A subsidiary ledger should be maintained showing complete details of all the fixed assets owned by the utility. This ledger should show all information about each asset, as well as dollar values.

Accounting Entries

(1) To set up outlay for utility plant provided in part by contribution from governmental body in control and in part by bond issue:

Dr. Utility Plant	$800 000	
Cr. Bonds Payable		$400 000
Equity of Governmental Body		400 000

(2) Services billed:		
Dr. Accounts Receivable	$200 000	
Due from Governmental Body	25 000	
Cr. Services to Customers		$200 000
Services to Governmental Body		25 000
(3) Collections on account from customers:		
Dr. Cash	$210 000	
Cr. Accounts Receivable		$190 000
Due from Governmental Body		20 000
(4) Customers' deposits received:		
Dr. Cash	$3 000	
Cr. Customers' Deposits		$3 000
(5) Purchases of supplies and merchandise:		
Dr. Materials and Supplies	$41 240	
Merchandise	29 780	
Cr. Accounts Payable		$71 020
(6) Services of employees:		
Dr. Operating Expense	$109 130	
Cr. Accrued Liabilities		$109 130
(7) Materials and supplies used:		
Dr. Operating Expense	$29 490	
Cr. Materials and Supplies		$29 490
(8) Purchase of new equipment:		
Dr. Utility Plant	$7 000	
Cr. Accounts Payable		$7 000
Dr. Earned Surplus	$7 000	
Cr. Equity of Governmental Body		$7 000
(9) Sales of merchandise:		
Dr. Cash	$ 4 780	
Accounts Receivable	23 320	
Cost of Merchandise Sales	20 300	
Cr. Merchandise Sales		$28 100
Merchandise		20 300
(10) Purchase of investments:		
Dr. Sinking Fund Investments	$15 000	
Cr. Cash		$15 000
(11) Other income:		
Dr. Cash	$3 000	
Cr. Interest on General Investments		$ 300
Rental of Property		2 700

(12) Other expense:

Dr. Taxes	$15 000	
Interest on Bonds	4 000	
Depreciation	16 000	
Cr. Cash		$19 000
Provision for Depreciation		16 000
Dr. Depreciation Fund Cash	$16 000	
Cr. Cash		$16 000

(13) Accounts and payrolls paid:

Dr. Accounts Payable	$63 250	
Accrued Liabilities	96 050	
Cr. Cash		$159 300

(14) To close accounts at end of year:

Dr. Services to Customers	$200 000	
Services to Governmental Body	25 000	
Interest on General Investments	300	
Rental on Property	2 700	
Cr. Income and Expense		$228 000
Dr. Income and Expense	$173 620	
Cr. Operating Expense		$138 620
Taxes		15 000
Interest on Bonds		4 000
Depreciation		16 000
Dr. Merchandise Sales	$28 100	
Cr. Cost of Merchandise Sales		$20 300
Income and Expense		7 800
Dr. Income and Expense	$62 180	
Cr. Earned Surplus		$62 180

(15) Appropriations from Surplus:

Dr. Earned Surplus	$25 000	
Cr. Reserve for Sinking Fund		$15 000
Due General Fund		10 000

GENERAL LEDGER ACCOUNTS

Cash

(3) Accounts collected	$210 000	(10) Investments purchased	$15 000
(4) Customers' deposits	3 000	(12) Taxes and interest paid	19 000
(9) Sales of merchandise	4 780	(13) Liabilities paid	159 300
(11) Interest and rents received	3 000	To Depreciation Fund Cash	16 000
		Balance	11 480
	$220 780		$220 780
Balance	$11 480		

Depreciation Fund Cash

(12) From cash	$16 000		

Accounts Receivable

(2) For services billed	$200 000	(3) Collections	$190 000
(9) Sales of merchandise	23 320	Balance	33 320
	$223 320		$223 320
Balance	$33 320		

Due from Governmental Body

(2) For services billed	$25 000	(3) Collections	$20 000
		Balance	5 000
	$25 000		$25 000
Balance	$5 000		

Materials and Supplies

(5) Purchases	$41 240	(7) Materials and supplies used	$29 490
		Balance	11 750
	$41 240		$41 240
Balance	$11 750		

GENERAL LEDGER ACCOUNTS (*Continued*)

Merchandise

(5) Purchases	$29 780	(9) Goods sold	$20 300
		Balance	9 480
	$29 780		$29 780
Balance	$9 480		

Sinking Fund Investments

(10) Investments purchased	$15 000		

Utility Plant

(1) Plant required	$800 000		
(8) New equipment	7 000		

Accounts Payable

(13) Accounts paid	$63 250	(5) Purchases	$71 020
Balance	14 770	(8) New equipment	7 000
	$78 020		$78 020
		Balance	$14 770

Accrued Liabilities

(13) Items paid	$96 050	(6) Services of employees	$109 130
Balance	13 080		
	$109 130		$109 130
		Balance	$13 080

Due General Fund

		(15) From Surplus	$10 000

Customers' Deposits

		(4) Cash received	$3 000

Bonds Payable

		(1) Bonds for plant	$400 000

Reserve for Sinking Fund

		(15) From Surplus	$15 000

GENERAL LEDGER ACCOUNTS (*Continued*)

Provision for Depreciation

		(12) Depreciation charged	$16 000

Earned Surplus

(8) To Equity	$ 7 000	(14) From Income and Expense	$62 180
(15) To Reserve and General Fund	25 000		
Balance	30 180		
	$62 180		$62 180
		Balance	$30 180

Equity of Governmental Body

Balance	$407 000	(1) Invested in plant	$400 000
		(8) From Earned Surplus	7 000
	$407 000		$407 000
		Balance	$407 000

Services to Customers

(14) To Income and Expense	$200 000	(2) Services billed	$200 000

Services to Governmental Body

(14) To Income and Expense	$25 000	(2) Services billed	$25 000

Merchandise Sales

(14) To Income and Expense	$28 100	(9) Goods sold	$28 100

Cost of Merchandise Sales

(9) Merchandise sold	$20 300	(14) To Income and Expense	$20 300

GENERAL LEDGER ACCOUNTS (*Continued*)

Taxes

(12) Taxes paid	$15 000	(14) To Income and Expense	$15 000

Depreciation

(12) Depreciation charged	$16 000	(14) To Income and Expense	$16 000

Operating Expense

(6) Services of employees	$109 130	(14) To Income and Expense	$138 620
(7) Materials and supplies used	29 490		
	$138 620		$138 620

Interest on General Investments

(14) To Income and Expense	$300	(11) Cash received	$300

Rental of Property

(14) To Income and Expense	$2 700	(11) Cash received	$2 700

Interest on Bonds

(12) Interest paid	$4 000	(14) To Income and Expense	$4 000

Income and Expense

(14) Expense accounts	$173 620	(14) Income accounts	$228 000
(14) To Earned Surplus	62 180	(14) Profit on merchandise sold	7 800
	$235 800		$235 800

STATEMENT 22—ELECTRIC UTILITY FUND
CONDENSED INCOME AND EXPENSE STATEMENT

OPERATING INCOME:			
Operating Revenues:			
Services to customers		$200 000	
Services to governmental body		25 000	$225 000
Less:			
Operating expense		$138 620	
Taxes		15 000	
Depreciation		16 000	169 620
Net Operating Income			$55 380
OTHER INCOME:			
Merchandise Sales *	$28 100		
Cost of Merchandise Sales	20 300	$7 800	
Interest on general investments		300	
Rentals of property		2 700	10 800
Total Income			$66 180
OTHER EXPENSE:			
Interest on bonds			4 000
Net Income transferred to Earned Surplus (Statement 23)			$62 180

* In actual practice, sales expense should be charged against merchandise net income in determining this figure.

STATEMENT 23—ELECTRIC UTILITY FUND
ANALYSIS OF CHANGES IN EARNED SURPLUS

Balance at beginning of year		$ 000
Add: Net income for year (Statement 22)		62 180
Deduct: Appropriated to General Fund	$10 000	
Appropriated to Sinking Fund	15 000	
To Equity of Governmental Body	7 000	32 000
Balance end of year (Statement 24)		$30 180

STATEMENT 24—ELECTRIC UTILITY FUND BALANCE SHEET

Assets

Cash		$ 11 480
Depreciation Fund Cash		16 000
Accounts Receivable		33 320
Materials and Supplies		11 750
Merchandise		9 480
Due from Other Funds		5 000
Investments		15 000
Utility Plant	$807 000	
Less: Depreciation	16 000	791 000
Total Assets		$893 030

Liabilities

Accounts Payable	$ 14 770
Accrued Expenses	13 080
Due to General Fund	10 000
Customers' Deposits	3 000
Bonds Payable	400 000
Surplus:	
Reserve for Sinking Fund	15 000
Plant Investment (Governmental body)	407 000
Earned Surplus (Statement 23)	30 180
Total Liabilities and Surplus	$893 030

CHAPTER XIV

SPECIAL ASSESSMENT FUNDS

Purpose. Special assessment funds, sometimes called "local improvement funds," are those funds set up to finance improvements or services, the cost of which is assessed wholly or in part against private property adjoining the improvement or considered as receiving direct benefits therefrom. These funds are particularly common to municipalities. The projects that come under this classification most often found in municipalities are new pavements, sidewalks, lighting systems, and sanitary and storm sewers.

The operation of special assessment funds ordinarily is regulated by special state laws and local regulations pertaining thereto. These laws and regulations vary widely in the different states. It is virtually impossible to describe a procedure that will meet all local conditions.

Preliminary Details. Although the various state laws and local ordinances will affect the details preliminary to actual financing and accounting, the procedure applicable in one state will be described here. This will be indicative of general processes involved.

A local board of improvements is established composed of certain ex-officio members. The mayor, the city engineer, and the superintendent of streets comprise the voting members of this board, with the city attorney added as an advisory member. This board may initiate the proceedings for any new improvement that it may deem desirable. If a group of property owners desires consideration of any improvement, they may circulate a petition among themselves and when properly signed this petition may be presented to the board. Whether the board is motivated

by its own action or by petition, the next step involves an estimate of costs in a general way and the calling of a public hearing by the board. All property owners who would ultimately be affected by the possible project are notified of this public hearing. It is their privilege to appear and state their arguments pro or con.

After the hearing the board must decide whether the improvement is justified and desirable and whether it should be moved on to further stages. With a decision of this sort having been made, more detailed estimates of costs are prepared while the entire plan is formally drawn up for presentation to the city council. After the council has decided favorably on the improvement it is turned back to the board again. At this stage the plan is completely formalized with not only an estimate of costs but also a detailed statement as to how those costs are to be distributed among the property owners and what portion is to be borne by the city from general revenues. The entire proposal is then presented to the county court. This court then calls a public hearing involving the same individuals called in the hearing before the board of local improvements.

After the hearing by the county court a decision is rendered which may assume one of several different forms. The two extremes would be complete approval or disapproval of the plan. The court may approve the project in general but require adjustment of total cost estimates or a reapportionment of the distribution of costs over the property owners. In any event, after final approval by the court the plan is returned to the local board.

The local board then draws up detailed specifications and calls for bids. If the bids are in line with the estimates made the award of the contract is made to the lowest responsible bidder.

Distribution of Costs. The total cost of each improvement is distributed as a special assessment tax to the benefited property owners with, in many cases, some apportionment to the city to be paid from revenues from general taxes. This latter amount is commonly known as public

benefit. It consists of some elements of the cost that cannot equitably be distributed to property owners, such as the cost of pavements at street intersections and construction of pavement openings to underground utilities.

The cost of the improvement is distributed to benefited property owners in several different ways. In the case of pavements, sidewalks, and usually lighting systems, a front footage method is used. This means that each owner pays an amount in proportion to the total cost that his front footage bears to the total front footage covered by the improvement. Costs for storm and sanitary sewers are often distributed on a basis of relative benefits obtained by owners in relation to the distance they may be from the main sewer line.

Many methods of distribution of costs have been put forward. Some of them become quite scientific and mathematical in nature. None of them has been widely accepted or employed because of their complications. The simpler methods are accepted by usage and probably are as equitable in the long run as those of a more scientific nature.

Future of Special Assessments. It has often been contended that any improvement of the type discussed in this chapter is of distinct municipal value and that the cost should be borne by the city through general taxes rather than through special assessments against those property owners who are presumably directly benefited. There is probably a great deal of merit in this contention. Improvements in a city are used by the citizens in general and not merely by those to whose property the improvement may be adjacent. As a city becomes better improved the property values will generally rise not only in the improved areas but in adjacent areas as well. An uplift in the entire city morale is often a result of continued sectional improvement. Physically and psychologically the benefits reach further than the areas where the improvements are actually located. An increase in the number of adherents to this belief could mean a general diminishing of public improve-

ments by the special assessment method and an increase in those paid for by general assessment.

Nevertheless, the present existence of special assessment plans and the strong hold that they have in municipal policy make an understanding of the accounting for them necessary. We need not expect that such accounting will disappear in the immediate future even though a tendency toward its diminishment does exist.

Method of Financing. After the preliminary details have been properly cared for in accordance with the specific state laws, and the improvement has been authorized, the problem of financing the project reflects itself in the entire accounting procedure. In most cases the contractor must be paid in full when the improvement is completed, whereas the assessments against the property owners and the city are spread over a period of time, usually ten years. Bond issues usually are floated to provide the immediate funds. These bonds are issued in series payable out of the assessments as they are collected. Since the bonds bear interest, interest is charged on the assessments. The first instalment of the assessment normally is larger than the remaining ones, which difference provides for miscellaneous extra costs that may arise.

This method works out very well in theory. The principal of the assessments offsets the principal of the bonds year by year, whereas the interest on the assessments meets the interest on the bonds. Practical difficulties contort the picture. The major problem that is usually confronted arises when prepayment of instalments takes place. This prepayment reduces or eliminates interest on the assessments, but the interest on the bonds continues to accrue. Many municipalities have found themselves in difficulty when proper provision has not been made for this very common occurrence. Responsibility should be placed on some official for observing such prepayments carefully so that no excess money is allowed to lie idle, causing loss of interest. It is important that all special assessment bonds should be made callable. Even when this is done, some loss

is unavoidable, for some time must elapse between the notice of call and the stoppage of interest. Provision for this difference should be made in the original assessment.

Temporary financing in the beginning before the bonds are sold may necessitate short-term borrowing, which would be repaid from the proceeds of the bond issue.

Segregation of Assessment Projects. The accounts for each special assessment improvement must be kept entirely separate from those of every other project. This may be accomplished through subsidiary ledgers in order to avoid encumbering the General Ledger with a great deal of detail. It is common to find even small municipalities with many improvements of the special assessment type in process at the same time. The General Ledger contains a control for all special assessment funds, whereas the detail is found for each fund in the subsidiary ledgers. Thus statements and reports may show totals for all such funds as well as the amounts for each project. In any event no confusion among the accounts for the different projects should be allowed.

In many cases this segregation of the accounts by assessment projects extends to segregation within each project. It is often found that each instalment must be accounted for separately from every other instalment. This is on account of laws which sometimes specify that the first instalment of assessments received may be used for the repayment only of bonds in the first series, that the second instalment of assessments received be used for repayment only of bonds in the second series, and so on. This obviously complicates the details that must be kept in subsidiary records, particularly when prepayments and delinquencies begin to appear as they almost regularly do. Whether the law requires such segregation or not, such a procedure results in the only fair way to liquidate bonds and interest. This careful segregation will also help eliminate embarrassing financial situations which may otherwise have arisen. Special state laws have had to be enacted in the past to help cities out of an otherwise hopeless financial situation

as a result of improper attention to the complete accounting segregation of both individual assessment projects and instalments within those projects.

Nature of Funds. Assessment funds are expendable funds. Their resources consist of bonds authorized and later of assessments receivable. These resources are offset at all times by liabilities in the form of Bonds Payable and possibly other temporary liabilities. The assessments are made simply for the purpose of reimbursing the government for expenditures made by it. They do not increase expendable surplus and are not revenue.

It has been held by some [1] that, since the expenditures of a revenue fund are provided for through taxes, and these taxes are revenue in nature, the assessments collected in a special assessment fund are also revenue since they provide for expenditures. It must be remembered first that the expenditures made in a revenue fund are normally of the "expense" type, whereas those made in an assessment fund involve the acquisition of more permanent assets. It will be found later that there is some doubt as to how much of the value of such acquisitions should be carried as municipal assets. The problem is much more involved than making a simple comparison with revenue funds. Normally a revenue does not include a recovery of an expenditure.[2] The point may be debatable, but by definition receipts from assessment are not considered revenue in this chapter.

Resources and Obligations. The resources of assessment funds are

Cash for Construction.
Cash for Bonds and Interest.
Assessable Authorization.
Assessments Receivable.
City's Share of Cost of Improvements.
Due from Other Funds.
Bonds Authorized and Unissued.
(Offset to Bonds Payable)

[1] For example, the United States Bureau of the Census.
[2] Cf. Municipal Accounting Terminology in *Municipal Accounting Statements*, on Municipal Accounting, 1941.

The obligations of assessment funds are:

Accounts Payable.
Notes Payable.
Bonds Payable.
Due to Other Funds.
Reserve for Encumbrances.

Assessable Authorization. Before an improvement is started or bonds issued to finance it, an estimate of its cost is approved. For completeness, this estimate should be set up in the assessment accounts under the heading of Assessable Authorization. This account is debited with the estimated cost of the improvement, which is the amount of authorized resources and expenditures of the fund; the contra is a credit to Assessment Fund Balance.

When an assessment has been made for the city's share of cost of improvements, assets are created in the form of Assessments Receivable and City's Share of Cost of Improvement, which accounts are debited, Assessable Authorization being credited. Any difference between the total assessments and the original estimate is carried to Assessment Fund Balance account.

Bonds Authorized and Unissued. When the bond issue necessary to carry out a local improvement is authorized and approved, the account Bonds Authorized and Unissued is opened. It is debited with the par value of the bonds authorized, Bonds Payable being credited. As bonds are sold, it is credited with the par value of bonds sold, Cash for Construction being debited for the amount received and Assessment Fund Balance being charged or credited with discount or premium, respectively.

In preparing a balance sheet before all bonds are sold, the balance of Bonds Authorized and Unissued is deducted from Bonds Payable, thus showing as a liability only the amount of bonds actually issued. An alternate method is to credit, in the first entry, Reserve for Bonds Authorized and Unissued. When bonds are sold, this entry is reversed and

Bonds Payable account then credited for the amount of bonds disposed of at that time.

Premium and Discount on Bonds. The assumption in the preceding paragraph is that the proceeds of the bond issue are available for the project. This is a common procedure and is the method illustrated in this chapter. If it is desired, premium may be amortized over the life of the bonds. Other things being equal, it makes no difference in the final result as far as the assessment is concerned. As will become apparent, excess cash received from the sale of bonds after the contractor has been paid may be used in the payment of bonds and interest as they fall due. If the par received from the bonds is sufficient to pay the costs on the project, the premium that has been received reduces the amount to be supplied from other sources for payment of bonds and interest. On the other hand, if more than par is necessary for the project, a greater assessment would have been required to take care of the project cost if the premium is amortized, or to care for interest if the premium is not amortized. It is obvious that the cash available is not affected by amortization of premium and, since it is available for interest if not used for construction, it is not necessary to follow through with the amortization process. It should be recognized further that the profit and loss element is not involved.

A similar discussion applies to discount except, of course, that the amount of cash available is less instead of more as with a premium. A practical problem arises, however, if discount amortization is attempted, in that a transfer of cash from some other fund would be necessary to make the par amount of the bonds available.

Payment to Contractor. As has been suggested, the contractor may be paid from the proceeds of the bond issue. It sometimes happens that the bonds are turned over to him directly as payment. This procedure simply avoids any cash entry to the extent of bonds given to him. The remainder of the entries would be the same as shown in this chapter.

Improvement Expenditures. Expenditures on account of the improvement include construction contracts and orders and legal and engineering expenses. The account Improvement Expenditures represents the sum that has been expended on an improvement which is assessable back against property owners or against other funds. It is debited when expenditures are made and Cash for Construction is credited or when bonds are delivered directly to the contractor and Bonds Authorized and Unissued is credited. When the improvement is completed, the account is closed to Assessment Fund Balance account.

Assessments Receivable. The Assessments Receivable account covers assessments made against property owners for that portion of the expense of a local improvement chargeable to them. It is debited when these assessments are made, Assessable Authorization being credited. It is credited with the amounts received on the principal of these assessments, Cash for Bonds and Interest being debited. It is a controlling account for the subsidiary Assessments Receivable Ledger. When the law so requires, a separate control must be maintained for each instalment of the assessment and for the cash received from it. That portion of city's share (see next paragraph) relating to each respective instalment may be incorporated in the same control.

City's Share. It frequently happens that a part of the cost of an improvement handled through an assessment is determined to be of general benefit and therefore should be paid for by the community as a whole. This is known as a "public benefit" and is payable out of general revenues or out of a special tax levy, either in a lump sum or in instalments similar to other assessments. This obligation may also be taken care of by a general bond issue. The amount of public benefit is debited to City's Share of Cost of Improvements account (sometimes called "Public Benefits Receivable") at the time Assessments Receivable against property owners are set up, Assessable Authorization being credited, and is carried as a resource of the Assessment Fund until it is covered by transfers from other funds.

Although this item is an obligation of some revenue fund, usually the General Fund, it need not be set up in that fund, as it is payable out of resources of future years, rather than the current year. In each year an appropriation must be made in the fund out of which it is payable, in sufficient amount to cover the amount due that year. If in any case that is not done, the amount due should be set up as a liability of the fund out of which it is payable. If it is desired to show liabilities of future years in the general accounts, this should appear in the Fixed Assets and Liabilities accounts, as described in Chapter XVIII.

Cash Accounts. Two cash accounts have been mentioned in the preceding paragraphs, Cash for Construction and Cash for Bonds and Interest. It is important that these two accounts be kept separate and carefully distinguished. This is particularly important when there is cash on hand for construction purposes while cash from assessments is being collected. The cash received from the bond issue is primarily for construction purposes, but any balance remaining after construction is completed should be transferred to Cash for Bonds and Interest and used for that purpose. On the other hand, no cash that is received for the payment of bonds and interest may be used for construction purposes. It thus becomes vital that the two cash accounts should not be confused.

Bonds Payable. Assessment bonds are to be retired out of the resources of assessment funds. Hence, they are an obligation of these funds, and an account for them appears in the accounts of these funds. The account Bonds Payable may be credited when bonds are authorized, Bonds Authorized and Unissued being debited. It is debited as bonds are paid, Cash for Bonds and Interest being credited. A separate account must be kept for each series of bonds whenever each is a lien only on the assessment instalment corresponding to it and payable only out of the cash received from that instalment.

Collection Expenditures. Collection expense incurred during the period of collection of assessments is charged to

Collection Expenditures and paid from Cash for Bonds and Interest. When the collection of all assessments is concluded, the account is closed to Assessment Fund Balance account.

Interest. Interest is charged on deferred instalments of assessments and is paid on bonds. Interest Income account is credited with interest collected, Cash for Bonds and Interest being debited. Interest Expenditures account is charged with interest paid, Cash for Bonds and Interest being credited. Interest receivable may be set up at the time interest on assessments is due, and interest payable should be set up for any interest on bonds not paid when due.

Since these two interest amounts should be equal theoretically, it is important that the actual amounts be easily compared. For this reason the entries in these two accounts should not be confused with other interest amounts. The other kind of interest payment that will most frequently be involved is that on temporary loans during the early construction period before the bonds are sold. Such interest is properly part of the construction cost and may be charged to Improvement Expenditures or to some special interest account which is recognized as accumulating such a cost.

Interest accounts are closed to Assessment Fund Balance account when all assessments are collected and all bonds paid. Interest may be closed to Assessment Fund Balance (or Surplus) at the close of each year unless it is required that interest collected on specific instalments be applied only to the payment of interest on the corresponding series of bonds. In that event the accounts of each instalment and series of interest must be kept intact until that assessment instalment and the corresponding series of bonds are disposed of.

In the Balance Sheet, interest income may be added to Assessment Fund Balance account and interest expenditures deducted unless it is required that interest be accounted for in connection with each assessment instalment and each series of bonds, respectively.

Assessment Fund Balance.[1] Through this account all the operations of each special assessment fund are handled much in the same manner as the operations of a revenue fund are handled through Unappropriated Surplus account. This account is opened when the fund is created and the estimated amount of its total resources known, the latter being set up as the Assessable Authorization. The account is increased or decreased by premium or discount on bonds, respectively, after which it represents the amount actually available for the improvement. Accounts of expenditures and of interest income are closed into it. Any balance after all costs and expenses are paid represents a surplus. The balance may be transferred to a separate surplus account at that time if desired.

Use of Surplus. Surplus of an assessment fund may arise from an unused balance of the original authorization or from an excess of the assessment over the cost of the improvement. Abatements of assessments (also uncollectible assessments) would be chargeable to it. If, when the construction is completed, it is found that the assessment that has been levied is more than the amount desired, a rebate or abatement can be made at that time. The rebate would involve a refund in cash from Cash for Bonds and Interest account to those who have paid their assessments in full and a credit to Assessments Receivable for other persons. Any balance remaining when the assessments are collected and the bonds paid may be disposed of only by special action. Strictly speaking, it belongs to the property owners and to the city, in proportion to their original assessments. As a distribution along this line generally would be impracticable, such a surplus should be applied, no doubt, to meet deficits in other assessment funds, if any, or toward other public improvements.

Other Accounts. Accounts for Accounts Payable, Encumbrances, Reserve for Encumbrances, Notes Payable, and Due to Other Funds are the same as in other funds. Additional accounts which may be required under certain

[1] The National Committee on Municipal Accounting uses the title "Reserve for Authorized Improvements" for this account.

conditions are Judgments Payable, Vouchers Payable (when vouchers due at some future date are issued in payment of expenses or contracts), and Assessment Liens to cover property acquired by the city through tax sale on account of uncollected special assessments. Contracts Payable account may also be set up to separate payments due on contracts from other accounts payable.

Subsidiary Accounts. All assessments are against individual properties to be paid by current property owners. A subsidiary record or ledger must be kept, therefore, to take care of these individual accounts. This ledger must agree with the controlling account Assessments Receivable for each instalment.

Accounting Procedure. The accounting procedure incident to assessment funds is as follows:

(1) When estimate of expenditure is approved:

General Journal		
Dr. Assessable Authorization	$36 000	
Cr. Assessment Fund Balance		$36 000

(2) When bond issue is authorized:

General Journal		
Dr. Bonds Authorized and Unissued	$36 000	
Cr. Bonds Payable		$36 000

(3) When bonds are sold at a discount:

Cash Receipts Journal		
Dr. Cash for Construction	$17 500	
Assessment Fund Balance (for Discount)	500	
Cr. Bonds Authorized and Unissued		$18 000

(4) When contracts are made:

Contract Register		
Dr. Encumbrances	$29 000	
Cr. Reserve for Encumbrances		$29 000

(5) For vouchers covering invoices or bills for other expenses:

Voucher Register		
Dr. Improvement Expenditures	$6 000	
Cr. Accounts Payable [1]		$6 000

[1] When warrants are drawn immediately in payment of all bills as they

(6) For vouchers covering payments due on contracts:		
Voucher Register		
(*a*) Dr. Reserve for Encumbrances	$29 000	
Cr. Encumbrances		$29 000
(*b*) Dr. Improvement Expenditures	$29 420	
Cr. Accounts Payable [1]		$29 420
(7) When bonds are sold at a premium:		
Cash Receipts Journal		
Dr. Cash for Construction	$18 500	
Cr. Bonds Authorized and Unissued		$18 000
Assessment Fund Balance		500
(8) When warrants on treasury are issued for vouchers audited:		
Warrant Register		
Dr. Accounts Payable [1]	$35 420	
Cr. Cash for Construction		$35 420
(9) When assessments are made:		
Dr. Assessments Receivable	$32 780	
City's Share of Cost of Improvements	3 500	
Cr. Assessable Authorization		$36 280
(10) (*a*) To close Assessable Authorization account:		
Dr. Assessable Authorization	$280	
Cr. Assessment Fund Balance		$280
(*b*) To close Improvement Expenditures account:		
Dr. Assessment Fund Balance	$35 420	
Cr. Improvement Expenditures		$35 420
(*c*) To close Cash for Construction to Cash for Bonds and Interest:		
Dr. Cash for Bonds and Interest	$580	
Cr. Cash for Construction		$580
(11) When assessments are received:		
Cash Receipts Journal		
Dr. Cash for Bonds and Interest	$5 280	
Cr. Assessments Receivable		$3 650
Interest Income		1 630

become due, this account may be omitted and Entries 5 and 6 combined with 8.

(12) When interest is paid on bonds:

Voucher and Warrant Registers		
Dr. Interest Expenditure	$900	
Cr. Cash for Bonds and Interest		$900

(13) When public benefit instalment is received:

General Journal (contra entry in General Fund)		
Dr. Cash for Bonds and Interest	$1 000	
Cr. City's Share of Cost of Improvements		$1 000
Interest Income (for any interest paid)		

(14) When bonds are paid:

Voucher and Warrant Registers		
Dr. Bonds Payable	$3 600	
Cr. Cash for Bonds and Interest		3 600

(15) (*a*) When rebates of assessments are made:

Voucher and Warrant Registers		
Dr. Assessment Fund Balance	$100	
Cr. Cash for Bonds and Interest		$100

(*b*) When abatements of assessments are made:

General Journal		
Dr. Assessment Fund Balance	$100	
Cr. Assessments Receivable		$100

(16) For collection expenditures:

Dr. Collection Expenditures	$250	
Cr. Cash for Bonds and Interest		$250

General Ledger Accounts. The following ledger accounts are necessary for each assessment or project, and control accounts of the same titles in the General Ledger to cover all projects:

SPECIAL ASSESSMENT FUND ACCOUNTS

Cash for Construction

Dr.		Cr.	
(3) For receipts from sale of bonds	$17 500	(8) Payments of contracts, etc.	$35 420
(7) For receipts from sale of bonds	18 500	(10*c*) To Cash for Bonds and Interest	580
	$36 000		$36 000

SPECIAL ASSESSMENT FUND ACCOUNTS (*Continued*)

Cash for Bonds and Interest

Dr.		Cr.	
(10*c*) From Cash for Construction	$ 580	(12) Payment of interest	$ 900
(11) Assessments and interest received	5 280	(14) Payment of bonds	3 600
(13) Public benefit	1 000	(15*a*) Rebates of assessments	100
		(16) Collection expenditures	250

Bonds Authorized and Unissued

Dr.		Cr.	
(2) For bonds authorized	$36 000	(3) For bonds sold	$18 000
		(7) For bonds sold	18 000

Bonds Payable

Dr.		Cr.	
(14) Payment of bonds	$3 600	(2) Bonds authorized	$36 000

Improvement Expenditures

Dr.		Cr.	
(5) Expense	$6 000	(10*b*) To close	35 420
(6) Expenditures on contracts	29 420		

Assessments Receivable

Dr.		Cr.	
(9) For assessments made	$32 780	(11) Assessments received	$3 650
		(15*b*) Abatements	100

(Controlling account for subsidiary assessments receivable record)

City's Share of Cost of Improvements

(Public Benefit)

Dr.		Cr.	
(9) For assessments against city	$3 500	(13) Public benefit	$1 000

Interest Income

Dr.		Cr.	
		(11) For interest received on assessments	$1 630

SPECIAL ASSESSMENT FUND ACCOUNTS (*Continued*)

Interest Expenditure

Debit	Amount	Credit	Amount
Dr. (12) For interest paid on bonds	$900		

Assessable Authorization

Debit	Amount	Credit	Amount
Dr. (1) For estimate of cost of improvement	$36 000	Cr. (9) For total assessment	$36 280
(10*a*) Close to Assessment Fund Balance	280		

Encumbrances

Debit	Amount	Credit	Amount
Dr. (4) Contracts	$29 000	Cr. (6) Contracts vouchered	$29 000

Reserve for Encumbrances

Debit	Amount	Credit	Amount
Dr. (6) For encumbrances vouchered	$29 000	Cr. (4) For contracts let	$29 000

Accounts Payable

Debit	Amount	Credit	Amount
Dr. (8) For warrants on Treasury issued	$35 420	Cr. (5) Misc. vouchers	$ 6 000
		(6) Vouchers on contracts	29 420
	$35 420		$35 420

Collection Expenditure

Debit	Amount	Credit	Amount
Dr. (16) Expenditures	$250		

Assessment Fund Balance

Debit	Amount	Credit	Amount
Dr. (3) For discount on bonds sold	$ 500	Cr. (1) For estimate of cost of project	$36 000
(10*b*) From improvement expenditures	35 420	(7) For premium on bonds sold	500
(15*a*) For rebates	100	(10*a*) From assessable authorization	280
(15*b*) For abatements	100		

Assessment Fund Balance Sheet. The accounts of an assessment fund show balance sheets in their various stages as per Statement 25.

STATEMENT 25—SPECIAL ASSESSMENT FUND BALANCE SHEET

FOR ONE IMPROVEMENT

(While Work Is in Process After Entry 5)

Cash for Construction	$17 500	Accounts Payable		$ 6 000
Assessable Authorization	36 000	Bonds Payable	$36 000	
		Less: Bonds Authorized and Unissued	18 000	18 000
		Reserve for Encumbrances		29 000
		Fund Balance	35 500	
		Less Improvement Expenditures and Encumbrances	35 000	500
	$53 500			$53 500

SPECIAL ASSESSMENT FUND BALANCE SHEET

(After the Improvement Is Completed)

Cash for Bonds and Interest	$ 2 010	Bonds Payable		$32 400
Assessments Receivable	29 030	Fund Balance	$ 660	
City's Share of Cost of Improvements	2 500	Add: Interest income	1 630	
			2 290	
		Deduct: Interest and collection expenditures	1 150	1 140
	$33 540			$33 540

If the law requires that collections be applied only to the payment of specific bonds, the following accounts of the above Balance Sheet must be analyzed by instalments and series: Cash for Bonds and Interest, Assessments Receiv-

able, City's Share, Bonds Payable, Interest. Only in this manner can the use to which cash on hand may be applied and the relation between uncollected instalments and unpaid bonds be determined.

Other Statements. The operations of Special Assessment Funds are to be included in the following statements:

Statement of Receipts (Chapter VII).
Statement of Receipts and Disbursements (Chapter IX).

The information needed for these statements may be summarized as in Statement 26.

STATEMENT 26—SPECIAL ASSESSMENT FUND OPERATIONS

Receipts		Disbursements	
Non-Revenue Receipts:		For the Improvement:	
Bonds	$36 000	Contract	$29 420
Assessments	3 650	Expenses	6 000
Interest on Assessments	1 630	For Interest on Bonds	900
Total	$41 280	For Payment of Bonds	3 600
Transfers:		For Rebate on Assessments	100
Public Benefit	1 000	Collection expenditures	250
		Total	$40 270
		Balance	2 010
	$42 280		$42 280

A Statement of Assessment Bonds Payable should also be prepared periodically in the form of Statement 36 (Chapter XVIII).

Balance sheets of funds, previously discussed, remain as before, without change. Transactions in this chapter, affecting the General Fund, have already been allowed for in Chapter X.

CHAPTER XV

TRUST AND AGENCY FUNDS

Nature. Under Trust and Agency Funds are included those funds that, by virtue of various restrictions applying to them, are not the outright property of the particular government which holds them to use as it pleases. They are held by it in trust or custody as endowment or to be expended, either as to principal or income or both, for certain special purposes or to be retained until certain objects or requirements are accomplished and then returned.

The term "trust" is commonly used by governmental bodies and institutions in a sense somewhat different from its strict legal interpretation. In these cases, it is usually employed to cover any fund that, even though given outright, is for use only in a certain manner or for a certain purpose. Such restrictions may be placed upon it by another government, by an individual, or, as with pension funds, by the particular governmental unit itself.

The term "agency" is applied to those funds that are the property of some other government or individual and are held by the particular governmental body as a custodian only.

The chief sources of trust and agency funds are (1) gifts, (*a*) for endowments or (*b*) to be expended for special purposes; (2) deposits held as security for the performance of contracts or other purposes; (3) contributions, such as credits to pension and insurance funds; and (4) funds received and held by the government as agent for other governments or for individuals; in this group would be included taxes collected by one governmental body, such as a county, for other bodies pending distribution to them.

Each fund has a special purpose which must be carefully understood and followed. In many cases, it is for the bene-

fit of certain individuals rather than the public in general. Funds held in custody by one government for another are also included here.

Classification. Trust and agency funds are primarily grouped as follows for accounting and reporting purposes:

1. *Non-expendable funds,* including those funds the principal of which may not be expended; in this group are placed endowment funds and revolving trust funds.
2. *Expendable funds,* including all funds which may be expended.

Each of these groups constitutes a balanced set of general ledger accounts. In addition, subsidiary accounts are maintained to show the operations and condition of each individual fund.

Trust and agency funds may be of any of the various classes of funds, such as:

1. Endowment:

The principal is to be maintained inviolate, the income alone to be used for the special purpose for which the fund is created. (The income of such a fund constitutes an expendable fund. See Class 3.)

Examples of this class are endowment funds of various kinds, to provide permanent incomes. If these purposes are general in character, the incomes are revenues of the General Fund. (See Chapter VI.)

2. Revolving:

The principal is to be used as a revolving fund, but to be maintained without reduction; the income is either

(*a*) To be expended, in which case it constitutes an expendable fund.

(*b*) To increase the principal of the fund.

Examples of this class are loan funds, in which the principal is loaned out to qualified beneficiaries, and when repaid is loaned again to others.

3. Expendable:

(*a*) The principal to be expended for the purposes for which the fund is established, and when that is done the account is closed.

(*b*) The income of an endowment to be expended for some designated purpose. (See Class 1.)

Examples of this class of funds are pension funds; benefit funds which are supported by annual contribution; deposit funds; private funds held in trust; suspense funds, whose ultimate disposition is yet to be determined; and the income of all endowment funds. Taxes collected for other governments and other items handled by a government as an "agent" also fall in this class. (See Class 1.)

Funding of Trust Moneys. Each trust or agency fund has a special purpose, and must be accounted for in such manner as to preserve its integrity and autonomy. As there are often many funds of this nature, it is usually satisfactory to handle them through a single trust and agency funds group, so far as the accounts and the treasury are concerned, detailed accounts being kept in such a way as to show clearly the assets and the condition of each fund separately. As a matter of fact, a separate balance sheet can be constructed at any time for any trust or agency fund.

Resources and Obligations of Trust and Agency Funds. The resources of trust and agency funds consist chiefly of income-producing investments, loans receivable, and cash on hand pending expenditure or investment. Types of investments include income-producing properties as well as securities. "Deferred" items include premium on investments when carried for amortization, also accrued interest on investments purchased.

Obligations of trust and agency funds include Accounts Payable, Due to Other Funds, and Trust Funds Balance, which may be non-expendable or expendable. Non-expendable balance includes the principal of endowment and revolving funds; expendable balance covers those funds that may be expended.

Funds to be held as endowment are received in the form

of cash, securities, or income-producing property. When received in cash, they must be invested in such a way that an income can be derived from their use.

Revolving funds are received in the form of cash or in property which is to be reduced to cash. Revolving funds should be shown separately from endowment funds.

Expendable funds usually are received in cash.

Premium or Discount on Investments. It is not always necessary to account for premium or discount on investments purchased. Where income goes to the same account as principal or where frequent change in investments takes place, investments may be satisfactorily carried in the accounts at cost until disposed of. In investments of endowment of which the income is expendable, when such investments are purchased at more than par, to be held until maturity, it is necessary to amortize the premium. The usual procedure is followed, debiting *premium* at the time of purchase, and applying income as received in part to the income account of the proper fund, and in part to premium account for the amount to be amortized.

It is usually not practicable to undertake to amortize discount on such securities, since such a procedure might make it necessary to dispose of securities to provide for periodical transfer of discount to income accounts. For example, if all cash of the non-expendable funds were invested in securities, discount being carried as a deferred credit in that group, no cash would be available to meet the amortization of discount without disposing of sufficient securities to do this. The transfer of money from the non-expendable to the expendable group would then be necessary. Such a procedure, even though technically correct, would have practical difficulties such as lack of cash to meet such transfers and would give rise to question as to the propriety of transfers between principal and income.

Change in Value of Securities. It is also not ordinarily necessary or desirable to take account of market changes in the value of securities held as investments. However, a

statement showing the comparison between cost and market should be prepared periodically.

Investments in Real Estate. Real property received as a gift should be entered at appraised value at the time received. When the property is disposed of, an adjustment is then made in the principal account of the fund for the amount received in excess of or less than the original basis of valuation.

Upon acquisition of such property, an operating account should be set up under the expendable group to account for income and for operating expense. Net income as shown by this account, after providing for depreciation, should be transferred from time to time to the proper expendable trust fund to which the investment relates.

With real property received by gift or purchased as an investment of trust funds, provision for depreciation should be made regularly out of income by transferring cash from the expendable to the non-expendable funds group and crediting it to a reserve for depreciation account. In this way the value of the investment may be constantly maintained.

If real property is acquired as a result of foreclosure of mortgages held as investments of trust funds, such property is carried among investments. Costs of acquisition and other net expense incurred prior to acquisition, as well as capital expenditures subsequent thereto, should be added to the investment.

Appropriations. The purpose for which a trust or agency fund may be expended is specified upon its establishment. The amount available for expenditure may be indefinite, depending on actual receipts. Appropriation of trust and agency funds, therefore, usually consists in authorizing the expenditure of their entire receipts for the purposes for which the funds were created. Hence, no budgetary accounts are set up in this group.

Trust and Agency Funds Accounts. Summary general ledger accounts for all trust and agency funds are maintained in two balanced groups, for *non-expendable* and *ex-*

pendable funds, respectively. These accounts show the combined totals of cash, investments, etc., of *all* funds in each group. They constitute control accounts for the subsidiary Trust and Agency Funds Ledger, in which accounts are kept with all funds individually.

Operations and Accounting Procedure. The following illustrations show the necessary entries to the General Ledger only. All entries affecting Trust and Agency Funds Balance accounts, both Non-Expendable and Expendable, must be reflected also in further entries to accounts of individual funds in the subsidiary Trust and Agency Funds Ledger.

(1) (*a*) When non-expendable fund is received:
(Cash Receipts Journal)

Dr. Non-Expendable Funds Cash Property, Investments, or whatever asset is received	$10 000	
Cr. Non-Expendable Funds Balance		$10 000

(*b*) When expendable fund is received:
(Cash Receipts Journal)

Dr. Expendable Funds Cash	$5 000	
Cr. Expendable Funds Balance		$5 000

Conversion of cash into income-producing investments is treated as follows:

(2) For purchase of investments:
(Voucher Register)

Dr. Investments	$7 000	
Cr. Accounts Payable		$7 000

When warrants are issued, follow the usual plan:
(Warrants Register)

Dr. Accounts Payable	$7 000	
Cr. Non-Expendable Funds Cash		$7 000

If accrued interest is paid for at the time of purchase, the amount of this interest is charged to an accrued interest purchased account which should appear in expendable funds. If no balance exists in such funds, the item must be set up as a temporary asset of the non-expendable group, to be recovered out of the first income received.

If securities are purchased at a premium to be amortized into Income, a debit is made to Premium account when the purchase is made. Periodically a pro rata portion of this is carried to Income, thereby reducing the income for that period.

(3) For purchase of securities at a premium, premium to be amortized:

(Voucher Register)		
Dr. Investments (for par value)	$1 000	
Premium	100	
Cr. Accounts Payable		$1 100
(Warrant Register)		
Dr. Accounts Payable	$1 100	
Cr. Non-Expendable Funds Cash		$1 100

If investments are disposed of at a profit, the increase constitutes an addition to the principal of the fund.

(4) For sale of investments at a profit:

(Cash Receipts Journal)		
Dr. Non-Expendable Funds Cash	$4 000	
Cr. Investments (Cost)		$3 500
Non-Expendable Funds Balance		500

If investments are sold at a loss, the charge is made against principal.

(5) For sale of investments at a loss:

(Cash Receipts Journal)		
Dr. Non-Expendable Funds Cash	$900	
Non-Expendable Funds Balance	100	
Cr. Investments		$1 000

If unamortized premium still remains on any investments when disposed of, the balance of premium must be closed out of the proceeds of the sale by debiting Expendable Fund Balance and crediting Premium.

When income is received on account of a trust fund:

(6) For income from trust investment:

(Cash Receipts Journal)		
Dr. Expendable Funds Cash	$210	
Cr. Expendable Funds Balance		$210

(7) For income to be partly applied toward amortization of premium

(Cash Receipts Journal)		
Dr. Expendable Funds Cash	$25	
Non-Expendable Funds Cash	5	
Cr. Expendable Funds Balance		$25
Premium		5

Separate accounts of Income and of Expenditures of Trust and Agency Funds may be kept if desired, to be closed periodically into Trust and Agency Funds Balance accounts. However, individual transactions should be posted promptly to subsidiary accounts so that the condition of each fund may be known at all times.

When expenditures are made from an expendable trust or agency fund, according to its provisions, the balance is thereby reduced.

(8) For expenditure of trust funds:

(Voucher Register)		
Dr. Expendable Funds Balance	$1 000	
Cr. Accounts Payable		$1 000
(Warrant Register)		
Dr. Accounts Payable	$1 000	
Cr. Expendable Funds Cash		$1 000

A loan fund, or any trust fund of the "revolving" nature, is treated as follows:

(9) When fund is received:		
(Cash Receipts Journal)		
Dr. Non-Expendable Funds Cash	$10 000	
Cr. Non-Expendable Funds Balance		$10 000
(10) When a loan is made from the fund:		
(Voucher Register)		
Dr. Loans Receivable	$500	
Cr. Accounts Payable		$500
(Warrant Register)		
Dr. Accounts Payable	$500	
Cr. Non-Expendable Funds Cash		$500
(11) When a loan is repaid to the fund:		
(Cash Receipts Journal)		
Dr. Non-Expendable Funds Cash	$100	
Cr. Loans Receivable		$100

Accrued Income. From a theoretical accounting standpoint, it is possible to set up accrued income, such as accrued interest on securities, at the end of a fiscal period. From a practical standpoint, however, this is undesirable and unnecessary. Accrued income is not available for expenditure until received, and the income accounts of trust and agency funds should show at all times the amounts available for expenditure. The usual "profit and loss" purpose of setting up accrued income, of course, does not exist in these accounts. Hence it is believed that the income of trust and agency funds may be accounted for most properly on a cash basis.

General Ledger Accounts. General ledger accounts corresponding to those referred to in foregoing entries are maintained, each covering the transactions of *all* funds in "non-expendable" and "expendable" groups respectively. The operations of the individual funds appear in the Trust and Agency Funds Ledger, the total balances of which support balances in Trust and Agency Funds Balance accounts of the two groups.

TRUST AND AGENCY FUND ACCOUNTS

NON-EXPENDABLE FUNDS CASH

(1a) Receipt of funds	$10 000	(2, 3, 10) Warrants issued	$8 600
(4) Investments sold	4 000		
(5) Investments sold	900		
(7) Income applied to premium	5		
(9) Receipt of fund	10 000		
(11) Loans paid	100		

EXPENDABLE FUNDS CASH

(1b) Receipt of fund	$5 000	(8) Warrants issued	$1 000
(6) Income	210		
(7) Income	25		

NON-EXPENDABLE FUNDS BALANCE

(5) Loss on investments (See explanation)	$100	(1a) Receipt of fund	$10 000
		(4) Profit on investments	500
		(9) Receipt of fund	10 000

TRUST AND AGENCY FUND ACCOUNTS (*Continued*)

Expendable Funds Balance

(8) Expenditures	$1 000	(1*b*) Receipt of fund	$5 000
		(6) Income	210
		(7) Income	25

Investments

(2) Investments purchased	$7 000	(4) Investments sold	$3 500
(3) Investments purchased	1 000	(5) Investments sold	1 000

Accounts Payable

(2, 3, 8, 10) Warrants issued	$9 600	(2) Vouchers passed	$7 000
		(3) Vouchers passed	1 100
		(8) Vouchers passed	1 000
		(10) Vouchers passed	500

Premium

(3) Premium on investments purchased	$100	(7) Amortization	$5

Loans Receivable

(10) Loans made	$500	(11) Loans collected	$100

The Balance Sheet of the trust and agency funds accounts in the General Ledger appears as per Statement 27.

STATEMENT 27—TRUST AND AGENCY FUNDS
SUMMARY BALANCE SHEET

Non-Expendable Funds:		Non-Expendable Funds:	
Cash	$16 405	Balance	$20 400
Loans Receivable	400		
Investments	3 500		
Unamortized Premium	95		
	$20 400		$20 400
Expendable Funds:		Expendable Funds:	
Cash	$4 235	Balance	$4 235
	$24 635		$24 635

Trust and Agency Funds Ledger. The Trust and Agency Funds Ledger is a subsidiary ledger containing an individual account with each fund. Form B is an illustra-

tion of a form which may be used for a *non-expendable* fund separately invested. The total balances at any date must agree with the total balances of the Non-Expendable Funds Balance account in the General Ledger. In addition, the balances of Cash and Investments of the non-expendable trust fund accounts in the General Ledger may be verified against the Trust and Agency Funds Ledger when kept in the form shown herewith. When securities are purchased at a premium, entries in the subsidiary ledger include amounts paid as premium under debits to Investments in the non-expendable funds accounts and under credits to Cash. (See entry of Jan. 3.) Amortization of premium involves the reverse entry. (See entry of Jan. 7.)

FORM B—TRUST AND AGENCY FUND LEDGER—NON-EXPENDABLE FUNDS

Title of Fund *Endowment-Principal*

Date	Reference	Cash			Investments			Fund Balance
		Debits	Credits	Balance	Debits	Credits	Balance	
Jan. 1	Cash Rec.	$10 000		$10 000				$10 000
2	Vouch. Reg.		$7 000	3 000	$7 000		$7 000	10 000
3	Vouch. Reg.		1 100	1 900	1 100		8 100	10 000
4	Cash Rec.	4 000		5 900		$3 500	4 600	10 500
5	Cash Rec.	900		6 800		1 000	3 600	10 400
7	Cash Rec.	5		6 805		5	3 595	10 400

Title of Fund—*Loan*

Date	Reference	Cash			Loans Receivable			Fund Balance
		Debits	Credits	Balance	Debits	Credits	Balance	
Jan. 9	Cash Rec.	$10 000		$10 000				$10 000
10	Vouch. Reg.		$500	9 500	$500		$500	10 000
11	Cash Rec.	100		9 600		$100	400	10 000

A second section of the Trust and Agency Funds Ledger is devoted to the individual accounts of *expendable* funds. In these accounts it is necessary to account for the receipts, expenditures, and possibly encumbrances of each fund. Re-

ceipts and expenditures are entered from the sources already described. In the illustration herein, the ordinary double-entry form is used. The Appropriation Ledger special form (Form A) should be used for these funds when an accounting for encumbrances is desired. Encumbrances are entered from orders or contracts, and the free balance of the fund is extended.

When encumbrances exist against expendable trust or agency funds, the balances of such funds as shown in the Balance Sheet, Statement 27, should be subdivided to show the amount "encumbered" and "unencumbered."

TRUST AND AGENCY FUND LEDGER—EXPENDABLE FUNDS

Title of Fund—*Endowment Income*

		(6) Income	$210
		(7) Income	25

Title of Fund—*Expendable Gift*

(8) Warrants issued	$1 000	(1) Gift received	$5 000

Trust and Agency Funds Statements. Reports of trust and agency funds include Statement of Trust and Agency

STATEMENT 28—STATEMENT OF TRUST AND AGENCY FUNDS

Name of Fund	Fund Balance Beginning	Additions	Deductions	Fund Balance Close	In Form of	
					Cash	Investments * or loans
NON-EXPENDABLE:						
Endowment		$10 400		$10 400	$6 805	$3 595
Loan		10 000		10 000	9 600	400
Total		$20 400		$20 400	$16 405	$3 995
EXPENDABLE:						
Endowment Income		$ 235		$ 235	$ 235	
Expendable Gift		5 000	$1 000	4 000	4 000	
Total		$5 235	$1 000	$4 235	$4 235	
Grand Totals		$25 635	$1 000	$24 635	$20 640	$3 995

* Including unamortized premium. See Balance Sheet.

Funds, Statement 28, and Summary of Trust and Agency Fund Operations, Statement 29. The former statement shows the *increases* or *decreases* in each fund during the period covered, as distinct from the cash receipts and disbursements. It shows the balance of the fund at the end of the period and the nature of its contents, whether in cash or invested. If funds are pooled for investment, it is not possible to show this information for individual funds.

The illustrative material in this chapter deals with only one fund in each of the several classes "endowment," "loan," "endowment income," and "expendable gift." In practice, however, there would nearly always be numerous funds under each of these groups. In this event each fund would be listed separately and sub-totals shown for each group.

The operations of trust and agency funds should also be included in the Statement of Receipts (Chapter VII) and the Summary of Receipts and Disbursements (see Chapter IX). The information needed for these statements may be summarized as per Statement 29.

STATEMENT 29—SUMMARY OF TRUST AND AGENCY FUNDS OPERATIONS

Receipts		Disbursements	
Revenues:		Expenditures	$ 1 000
Interest on Investments	$ 240	Purchase of Investments	8 100
Non-Revenue Receipts:		Loans Made	500
Funds Received	25 000	Cash balance:	
Sale of Investments	4 900	Non-expendable	16 405
Loans Repaid	100	Expendable	4 235
Total	$30 240		$30 240

Pooling of Investments. Where a number of funds are held for the same general purposes, it is sometimes the practice to pool such funds for investment purposes. When this is done, the investments cannot be individually allocated to the individual funds but constitute a general asset of all funds concerned, as a group. In order to distribute income

to the various funds, each fund is credited periodically with the portion of the total income for a given period, corresponding to the proportion it bears to the total principal of all funds invested, making due allowance for changes, if any, in principal sums during the period.

When this procedure is followed, certain changes result in the accounting. In the first place, separate control accounts should be kept for (1) investments of specific funds and (2) pooled investments. Secondly, when income is received it is credited to the Undistributed Income account in the General Ledger instead of to Expendable Funds Balance. When a distribution is made to the income accounts of the funds participating in the pool, the Undistributed Income account is debited and Expendable Funds Balance credited. At this time credits are made to the individual expendable funds accounts in the subsidiary ledger. Undistributed Income balance will show as a separate item in the Trust Fund Balance Sheet under expendable funds and also in the Statement of Trust and Agency funds.

Profits or losses on pooled investment transactions are additions to or deductions from funds participating in the pool. To avoid the necessity of numerous entries and to facilitate the consolidation of profits and losses, it is advisable to carry these items to a Reserve for Gains and Losses on Pool Investments in the General Ledger. If the amount of this account becomes large, a distribution is then made to funds concerned. The account appears as a separate item in the Trust Fund Balance Sheet under non-expendable funds and also in the same manner in the Statement of Trust and Agency Funds.

When funds are pooled for investment purposes, it is not possible to allocate specific investments to individual funds, and consequently not possible to maintain an accounting for such funds as to cash and investments in the manner called for by Form B. In this case, the account for individual non-expendable funds becomes simply an ordinary double-entry ledger form, with credits for additions to principal and debits for deductions in principal. It is then rec-

ILLUSTRATION V—TRUST AND AGENCY FUNDS ACCOUNTING

Transaction	Entries			
	General Ledger		Subsidiary Ledger	
	Non-expendable group	Expendable group	Non-expendable †	Expendable ‡
1. Non-Expendable Cash Received	Dr. Non-Expendable Cash Cr. Non-Expendable Fund Balance		Cash and Balance	
2. Expendable Cash Received		Dr. Expendable Funds Cash Cr. Expendable Fund Balance		Credit
3. Investments Purchased	Dr. Investments Premiums * Cr. Accounts Payable		Investments and Cash	
4. Warrants Issued for Same	Dr. Accounts Payable Cr. Non-Expendable Cash			
5. Sale of Investments at a Profit	Dr. Non-Expendable Cash Cr. Investments Cr. Non-Expendable Fund Balance		Cash, Investments, and Balance	
6. Sale of Investments at a Loss	Dr. Non-Expendable Cash Non-Expendable Fund Balance Cr. Investments		Cash, Investments, and Balance	
7. Income from Investments		Dr. Expendable Funds Cash Cr. Expendable Fund Balance		Credit
8. Additional entry if Premium is to be amortized out of Income	Dr. Non-Expendable Cash Cr. Premium		Cash and Investments	
9. Expenditure of Trust Fund		Dr. Expendable Fund Balance Cr. Accounts Payable		Debit
10. Warrants Issued for Same		Dr. Accounts Payable Cr. Expendable Funds Cash		

* Use if premium is to be amortized. † Columns affected. ‡ Side of account affected.

oncilable only with the Non-Expendable Funds Balance account.

Investment Record. An auxiliary record necessary in connection with trust funds is the Investment Record. This register contains a complete description of all securities held as investments, including date of purchase, description of security, maturity and interest dates, interest rate, par value, fund for which held, cost, and disposition; also space for entry of income received. It must balance at all times with the Investments account in the General Ledger. A schedule showing securities on hand, with details concerning same, should be prepared periodically.

NOTE. In institutions such as colleges and universities, trust funds assume a position of major significance and involve many special problems of management and accounting. For a more complete treatment of the subject with reference to these relationships, reference is made to Arnett, *College and University Finance;* Morey, *University and College Accounting;* and *Financial Reports for Colleges and Universities.* (See References for names of publishers.)

CHAPTER XVI

BOND FUNDS

Amount of Public Borrowing. The total governmental debt in the United States has increased markedly since 1940 owing chiefly to the very large increase in the federal debt and to some increase in state and local indebtedness. Gross public indebtedness of all governments in 1940 was 63,214 million dollars, whereas in 1949 it was 273,645 million dollars. Of the latter, the federal debt amounted to 252,979 million as against 42,966 million in 1940. State debt had increased from 3,526 million in 1940 to 4,024 million in 1949, and local indebtedness remained practically static, being, respectively, 16,720 million in 1940 and 16,851 million in 1949.[1]

Most of this borrowing is through bond issues of one form or another, and the bulk of it is of long term. It appears that borrowing by all forms of government will continue at a high level for an indefinite period to come. Thus the Bond Fund becomes one of the important funds in governmental accounting.

Scope and Purpose. Bond funds are those funds established to receive and disburse the proceeds of any bonds issued by a government, except special assessment and utility bonds. Bonds provided for here are usually called general obligation bonds.

Bonds are issued by public bodies for a variety of purposes, among which may be mentioned

[1] U. S. Bureau of the Census, *Governmental Debt in 1949,* December, 1949, Washington, D. C.

1. The construction or purchase of improvements, such as new buildings, highways, or other public works.
2. Emergency expenditures, such as those occasioned by flood, unemployment relief, soldiers' bonus.
3. Funding accumulated deficits of revenue funds.
4. Refunding previous issues.

Bond funds are expendable but are not revenue funds, since their resources result from the creation of liabilities. The records for each bond issue must be kept separate from those of every other bond issue which may be in existence. This may be accomplished through subsidiary ledgers in order to avoid encumbering the General Ledger with a separate fund group of accounts for each bond issue. Whenever more than one issue is being accounted for through the Bond Fund, the accounts in the General Ledger become controlling accounts for those of each issue maintained in the subsidiary Bond Fund Ledger. The reports prepared may show the totals for all bond issues as taken from the General Ledger and the details of each bond issue as obtained from the subsidiary ledger. Each bond issue should be identified by a specific title so that it may be easily distinguished from every other issue.

In these funds, the bonds themselves are not obligations, for they are not to be paid out of the resources of such funds. Furthermore, the property acquired through the expenditure of bond funds is not an asset of these funds because it is not available to meet further expenditures. Fixed asset accounts of this nature, and liabilities relating to them, should be separately stated, as indicated in Chapter XVIII.

Resources and Obligations. The usual resources of bond funds are

Cash.
Due from Other Funds.
Bonds Authorized and Unissued.

The obligations of bond funds are

Accounts Payable.
Temporary Loans Payable.
Due to Other Funds.
Reserve for Encumbrances.

Accounts of Cash, Due from Other Funds, Accounts Payable, Due to Other Funds, and Reserve for Encumbrances are the same as in Revenue funds. Accounts of Stores may be found in bond funds if stores are acquired and held as an asset of such a fund before being used and charged as expenditures. Temporary Loans Payable account is required if money is borrowed in anticipation of the receipt of money from the sale of bonds. Other accounts may be Investments, if cash on hand is temporarily invested, and Contracts Payable.

The balancing account, corresponding to Unappropriated Surplus of revenue funds, may be called Bond Fund Balance. The account for each fund carrying this title should include a description which will identify it properly with the purpose of the issue.

Bonds Authorized and Unissued. This account is opened when the bond issue is authorized. It is debited with the total par value of bonds authorized, Bond Fund Balance being credited. When bonds are sold, Cash is debited and Bonds Authorized and Unissued credited, discount or premium being charged or credited to Bond Fund Balance or otherwise disposed of, as later discussed. The balance of Bonds Authorized and Unissued represents at any time the par value of bonds unsold.

Discount and Premium on Bonds. It is a frequent practice to expend the exact proceeds of a bond issue for the purpose for which the bonds were issued. If bonds are sold at more or less than par, a larger or smaller sum is expended for the project. Discount and premium, in this event, are charged or credited off at once. Discount should be charged to Bond Fund Balance account. Premium on bonds issued is to be credited to that account. Thus, the Bond Fund Balance account shows the exact and true amount available for expenditure on the project for which the bonds were is-

sued. This procedure is followed in the entries and accounts presented herein.

Another method is to apply any premium received to a reduction in the bonds payable. Under this plan, the amount of the premium would be transferred to the fund out of which the bonds are to be paid, and retained there until it can be so applied.

From an accounting standpoint, premium may be set up in the accounts and gradually amortized over the life of the bonds. Since the sale of bonds at a premium indicates, among other things, that the government enjoys a lower interest rate, the amortization should be related to the interest payments. A portion of the premium should, therefore, be applied periodically to the payment of interest on bonds if an amortization plan is followed. Transfer of premium to the General Fund and application to the payment of interest on bonds are recommended by the National Committee on Municipal Accounting.

In this event, the premium would be transferred to the fund out of which interest is to be paid and there used period by period to apply against the interest charge.

A practical difficulty is met in attempting to amortize discount on a general bond issue, in that the amount of the discount must be advanced from some other fund in order to make the par value of the bonds available in the Bond Fund.

As a general rule premium and discount are amortized in order to obtain a correct profit and loss figure for a fiscal period. As has been discussed earlier, the profit and loss element does not enter into the problem here. Furthermore, the Bond Fund does not have a fiscal period in the sense that the accounts must be closed at a specified time. For practical purposes, statements and reports may be prepared for the Bond Fund at the close of the fiscal period under which the revenue funds are operating, but the closing of a bond fund depends upon the termination of the project or purpose for which the issue originated. There-

fore, along with the fact that a bond issue is authorized for a specific purpose, it seems reasonable to assume that the proceeds of that issue are available for that purpose. When that purpose has been accomplished, any remaining balance may be used in partial payment of interest or principal.

Operation of Bond Funds. After the authorization has been set up and the bonds have been sold, the operation of the Bond Fund may assume different details, depending upon the purpose of the issue. If a refunding issue is involved, the only entry necessary would be one reversing the authorization entry as soon as the new issue is disposed of in lieu of the old one which is being refunded. If an asset is being purchased, the usual encumbrance entry might be necessary, followed by its reversal and an entry for the actual expenditure. Then any balance could be disposed of properly.

The construction of an asset by contract would be accounted for in a similar manner, except that contracts payable would enter into the picture and the encumbrance and expenditure accounts would remain open over a longer period of time. If the governmental body should elect to do its own constructing, more detailed accounts covering the various elements of cost might supplant the expenditures account. The usual job accounting procedures would have to be followed (see Chapter XII), but these accounts eventually would find their way into the Bond Fund Balance account, and any remaining balance, after the project had been finished, would be closed out in the usual manner.

If the loan and grant method of financing projects, which has become common in recent years, is followed, the grant should be accounted for through the Bond Fund in order to avoid separating amounts being used for the same project. When the federal grant is allowed, an entry may be made, debiting Due from United States and crediting Bond Fund Balance. When the grant is received, a charge to cash and a credit to Due from United States is made. Bond Fund Balance account continues to show the amount available for

the specific project. The remaining accounting procedure would then be similar to that discussed in the preceding paragraphs.

If the bond issue is to take up floating indebtedness of some other fund, the money received into the Bond Fund is transferred to the fund which it is to relieve, and applied to the payment of liabilities of that fund. The receipt of the transfer in that fund constitutes an addition to its Unappropriated Surplus account, and in this way the deficit appearing in that account is eliminated. (See Chapter XVIII.)

Bond Fund Balance. This account is credited with the par value of bonds authorized. It is debited or credited with discount or premium on bonds sold unless these items are otherwise applied, as described in a preceding paragraph. Thus its balance at any time represents the total resources of the fund as of that date. In the preparation of a balance sheet during the period of operation of the fund, expenditures and encumbrances are deducted from the Bond Fund Balance account, thus giving the *unencumbered* balance at that date. When the purpose for which the fund is set up is accomplished, the Expenditures account is closed into Bond Fund Balance. If any balance remains in the latter account, it is disposed of by transfer to some other fund, to be applied to retirement of bonds issued for this project.

After the project covered by the fund is completed, the balance in the Bond Fund Balance account is a surplus of the fund and may be transferred to a surplus account, if desired, until it is disposed of. Any further transaction or adjustment arising in the meantime would be carried to it.

Accounting Entries. Transactions common to bond funds and General Ledger entries relating thereto are

(1) For bonds authorized:

(General Journal)

Dr. Bonds Authorized and Unissued	$100 000	
Cr. Bond Fund Balance		$100 000

(2) For bonds sold at a premium:

(Cash Receipts Journal)

Dr. Cash	$51 000	
Cr. Bonds Authorized and Unissued (for par value)		$50 000
Bond Fund Balance (for premium)		1 000

(3) Temporary advance from another fund:

(Cash Receipts Journal)

Dr. Cash	$5 000	
Cr. Due to General Fund		$5 000

(Also contra entries in General Fund)

The procedure of encumbering and expending bond funds is the same as for revenue funds. Subsidiary Appropriations Ledger accounts would be necessary if several appropriations were made from the same fund.

(4) Vouchers audited, for expenses other than construction:

(Voucher Register)

Dr. Expenditures	$6 840	
Cr. Accounts Payable		$6 840

(5) For orders and contracts placed:

(Order and Contract Registers)

Dr. Encumbrances	$90 700	
Cr. Reserve for Encumbrances		$90 700

(See Statement 30 for Balance Sheet prepared at this point)

(6) Orders and contracts liquidated:

(Order and Contract Registers)

Dr. Reserve for Encumbrances	$90 700	
Cr. Encumbrances		$90 700

(7) Vouchers audited:

(Voucher Register)

On orders and contracts (See 6)

Dr. Expenditures	$91 420	
Cr. Accounts Payable		$91 420

(8) For bonds sold at a discount:

(Cash Receipts Journal)

Dr. Cash	$48 000	
Bond Fund Balance (for discount)	2 000	
Cr. Bonds Authorized and Unissued (for par value)		$50 000

(9) Warrants issued:

(Warrant Register)

Dr. Accounts Payable	$98 260	
Cr. Cash		$98 260

(10) Repayment of temporary advance from another fund:
(General Journal)

Dr. Due to General Fund	$5 000	
Cr. Cash		$5 000
(Also contra entries in General Fund)		

In addition to the foregoing, other entries are required under fixed asset and liability accounts which are discussed in a later chapter. (See Chapter XVIII.) Discussion of accounting procedure incident to funded capital debt and of sinking funds relating to the same is given in Chapter XVIII.

Closing Entries. A bond fund is ready for closing whenever the enterprise, the expenditures of which it was created to meet, is completed and all expenditures made. If any balances then remain, they should be disposed of as follows:

1. To close Expenditures account after all encumbrances are liquidated and all expenditures made:

Dr. Bond Fund Balance	$98 260	
Cr. Expenditures		$98 260

2. To transfer balance to Sinking Fund (or other fund from which bonds are to be paid) to apply to payment of bonds:

Dr. Bond Fund Balance	$740	
Cr. Cash		$740
(Also contra entries in Sinking Fund)		

General Ledger Accounts. The usual General Ledger accounts required for bond funds and entries therein are as follows:

BOND FUND ACCOUNTS

CASH

(2) Proceeds of bonds sold at a premium	$51 000	(9) Warrants issued	$98 260
(3) Advanced from General Fund	5 000	(10) Repayment to General Fund	5 000
(8) Proceeds of bonds sold at a discount	48 000	(*b*) Balance transferred to Sinking Fund	740
	$104 000		$104 000

BOND FUND ACCOUNTS (*Continued*)

Bonds Authorized and Unissued

(1) Bond issue authorized	$100 000	(2) Bonds sold at a premium (par value)	$50 000
		(8) Bonds sold at a discount (par value)	50 000

Accounts Payable

(9) Warrants issued	$98 260	(4) Vouchers audited	$ 6 840
		(7) Vouchers audited	91 420
	$98 260		$98 260

Due to General Fund

(10) Repayment	$5 000	(3) Temporary advance	$5 000

Reserve for Encumbrances

(6) Encumbrances liquidated	$90 700	(5) Orders and contracts	$90 700

Encumbrances

(5) Orders and contracts issued	$90 700	(6) Encumbrances liquidated	$90 700

Expenditures

(4) Other expenses	$ 6 840	(*a*) Balance closed to Bond Fund Balance	$98 260
(7) Vouchers audited:			
On orders and contracts	91 420		
	$98 260		$98 260

Bond Fund Balance

(8) Discount on bonds sold	$ 2 000	(1) Bond issue authorized	$100 000
(*a*) Expenditures	98 260	(2) Premium on bonds sold	1 000
(*b*) Balance transferred to Sinking Fund	740		
	$101 000		$101 000

Bond Fund Balance Sheet. The Balance Sheet of a bond fund, showing all usual accounts appearing during its operation, would be as per Statement 30 (after giving effect to Entries 1 to 5).

STATEMENT 30—BOND FUND BALANCE SHEET

Cash	$56 000	Accounts Payable	$ 6 840
Bonds Authorized and Unissued	50 000	Due to General Fund	5 000
		Reserve for Encumbrances	90 700
		Fund Balance (expenditures and encumbrances deducted)	3 460
	$106 000		$106 000

After the project for which the fund was established is concluded, the only accounts remaining open are Cash and Bond Fund Balance. When transfer of this balance is made to another fund, the Bond Fund is closed.

Other Statements. The cash operations of bond funds should be included in the following statements, to which additional columns for that purpose are to be added:

Statement of Receipts, Statement 5, Chapter VII.

Summary of Receipts and Disbursements, Statement 9, Chapter IX.

The information needed for these statements is presented in Statement 31, which is a statement of the operations of the fund.

STATEMENT 31—BOND FUND OPERATIONS

Receipts		Disbursements	
Non-Revenue Receipts		For improvements:	
Bonds	$99 000	Contract	$91 420
		Expenses	6 840
		Total	$98 260
		Balance transferred to Sinking Fund	740
	$99 000		$99 000

Additional Subsidiary Records. A subsidiary record of bonds issued should be maintained in the form of a Bond Register, showing details of both bond and coupon obligations and redemptions.

An additional subsidiary record is necessary in connection with contracts for capital projects, in the form of a Contract Register. This register provides a complete record of every contract entered into. It is a part of the record of encumbrances.

Other Funds Affected. The accounts of the General Fund are affected by Transactions 3 and 10 of this chapter. However, the condition of that fund is not changed from that appearing in Statement 14.

When transfers of final balances are made, the Sinking Fund will usually be affected. Any issues which involve the acquisition of assets will affect the fixed asset and liability accounts discussed in Chapter XVIII. The bonds issued normally will be shown in this same group of accounts.

CHAPTER XVII

SINKING FUNDS

Meaning and Scope. A sinking fund is a fund accumulated over the life of an issue of bonds, usually due at a single maturity date, in a sufficient sum to pay the bonds when due. Such a fund is normally used only for general obligation bonds. This is accomplished through an annual appropriation out of general revenue, transferred to the Sinking Fund, or through a special tax levy to provide for sinking fund instalments. Accumulated amounts in the Sinking Fund are invested and yield an income which may also be applied toward meeting the annual instalments. Occasionally the interest obligations are also met through the Sinking Fund, but that is not a procedure to be recommended, since interest is ordinarily paid from some revenue fund and is paid periodically; hence nothing is accomplished by a transfer of cash to the sinking fund and payment from the latter fund. If the obligation under an issue of bonds is set up on an actuarial basis, whereby a uniform sum is appropriated or levied regularly to cover both principal and interest, it may be desirable to handle both of these items through the Sinking Fund.

In many cases sinking funds are handled by trustees and not by regular officials of the governmental body. Even in these instances it is desirable that the accounts of the government show the operations and the condition of sinking funds and that statements of sinking funds be included in the reports of the governmental body concerned.

Serial Bonds. When bonds are issued in series, a specific amount to be paid each year, it is not recommended that they be paid through the Sinking Fund. As in all cases of interest, little would be gained by placing the cash for principal on serial bonds in the Sinking Fund for the short time

involved and then paying it out almost immediately. This can be readily accomplished through either the General Fund or a special revenue fund as the specific case may demand.

Accumulation. Various methods are followed in determining the annual sum to be raised to meet sinking fund requirements. The total amount raised to cover the principal due at the specific time in the future should be spread as nearly on a uniform basis as possible throughout the life of the bonds.

Two general methods are in use: the straight line method and the actuarial method. Under the first, the total amount necessary is divided by the number of years over which the accumulation is spread. The resulting sum will be the requirement for each year. The actual contributions will vary from year to year, depending upon the earnings of the investments in the fund. This method is simple to apply but does not spread the contribution equally over all years concerned. A more scientific method is the actuarial accumulation.

Actuarial Method. No attempt is made here to discuss actuarial science. Only the procedure to be followed, as it affects the accumulation in a sinking fund, will be described briefly. The question that concerns this fund is: What is the amount necessary to deposit in the Sinking Fund at the end of each of a given number of years to produce a given amount at the end of that time? The Sinking Fund will be the amount accumulated through an ordinary annuity. Tables showing the amount of $1.00 per annum at compound interest may be used in determining the proper amounts.

Example. A $50,000 bond issue is due fifteen years hence. A sinking fund is to be set up to provide for the payment of this issue at its due date. It is assumed the fund can earn 3 per cent annually. Interest on the bonds is to be paid from the General Fund. What is the annual contribution necessary?

First determine from a table showing the amount of $1.00 per annum at compound interest what an annuity of $1.00 would amount to at 3 per cent in fifteen years. This will be found to be 18.59891389. Then divide $50,000 by this divisor. The result ($2,688.33) represents the annual contribution necessary to accumulate $50,000 in fifteen years if the rate of earning is 3 per cent. This amount ($2,688.33) will be set up as the annual requirement. Any deficiency in the interest actually earned with the 3 per cent assumed will have to be adjusted by contributions from the General Fund or by increased requirements in subsequent years.

Operation. At the beginning of a fiscal period, an account Sinking Fund Requirements is opened, which is charged with the amount which must be accumulated in the fund during the period. The corresponding credit is to Reserve for Retirement of Bonds. The annual "requirements" are met in one or more of three ways: (1) by an appropriation in and transfer from some other fund; (2) by a special tax levy for the Sinking Fund; (3) by the income on investments of Sinking Fund Cash.

If a special tax levy is made to provide the amount required for sinking fund purposes, Taxes Receivable is debited, Sinking Fund Requirements being credited after allowing for Estimated Uncollectible Taxes. As cash is received, Taxes Receivable is credited.

If transfers are made from the General Fund or some other fund, an appropriation is first made in that fund. When the transfer of cash is to be effected, Expenditures account is debited in that fund and Cash credited. In the Sinking Fund, Cash is debited and Sinking Fund Requirements credited.

Cash on hand may be invested in interest-bearing securities until required for purposes of the fund. They are set up at cost unless they are purchased at more or less than par to be held to maturity, in which case premium or discount should be set up and written off periodically to Income. Interest on investments will be credited to Invest-

ment Income, which account is periodically closed into Sinking Fund Requirements.

Expenditures from a sinking fund are made for payment of bonds. Authorizations for these expenditures should be made by appropriations out of Reserve for Retirement of Bonds. Vouchers are then charged to Appropriations account. Necessary subsidiary appropriation accounts may be maintained in the Appropriation Ledger.

Matured Bonds. Normally bonds will be paid on or very soon after their maturity date. The procedure described in the preceding section and illustrated by the journal entries shown later is to be followed where this situation pertains. If there is a lapse of time between the due date of the bonds and the date of redemption, particularly if the preparation of financial statements intervenes, another step is necessary. Matured bonds like these are now an obligation of the Sinking Fund because an amount has been accumulated in that fund from which the bonds are to be paid. In these circumstances, the bonds should be shown in the Sinking Fund as a liability. This can be done by debiting Reserve for Retirement of Bonds and crediting Bonds Payable (matured) for the par amount matured. At the same time Bonds Payable would be reduced in the Fixed Asset and Liability accounts. If payment of bonds is handled through a fiscal agent, Cash with Fiscal Agent should be debited and Cash credited when payment for bonds is deposited with that agent. When the canceled bonds are returned, Bonds Payable (matured) is debited and Cash with Fiscal Agent credited.

Sinking Fund Requirements. It has been explained that this account is set up at the beginning of the year to show the amount that must be accumulated during the year. This amount may not be met exactly. If the account contains a debit balance at the end of the year, showing that the actual accumulation has not been great enough, one of the following steps should be taken: The difference may be made up out of excess amounts of previous years if such exist; transfers may be made from other funds; or the

requirements of subsequent years may be increased in amounts which will make up the deficiency.

If the account contains a credit balance, indicating that the actual accumulation has been greater than necessary, that amount may be transferred to Surplus account to be used in taking up subsequent deficiencies or it may be used to reduce the requirements of subsequent years.

Accounting Procedure. Sinking fund accounts must show for *each* sinking fund:

1. The amounts which *should be in* the *fund,* or "requirements" as at a given date.
2. The amounts *in* the fund.
3. The *assets* making up the fund.
4. The *obligations* of the fund.

Unless terms of the bond indenture prevent, sinking funds may be handled through one general ledger account group, and one set of general ledger controlling accounts maintained. A subsidiary sinking fund ledger, however, should be kept in such form as to show full details of *each* sinking fund. A form similar to that suggested for trust funds may be used (Chapter XV). If investments are "pooled," accounts with premium, discount, and income may be combined for all sinking funds until income is prorated at the end of the year.

General ledger accounts necessary for *each* sinking fund are as follows:

Resources:
- Cash.
- Taxes Receivable.
  - Less Estimated Uncollectible Taxes.
- Investments.
- Due from Other Funds.
- Premium.
- Sinking Fund Requirements.

Obligations; reserves, and surplus.
- Accounts Payable.
- Discount.

Reserve for Retirement of Bonds.
Appropriations.
Income on Investments.
Surplus.

Journal Entries for Sinking Funds. The following entries in journal form illustrate the entries necessary for *each* sinking fund for the usual transactions.

(1) To set up requirements of the fund for a fiscal period:		
Dr. Sinking Fund Requirements	$10 000	
Cr. Reserve for retirement of bonds		$10 000
(2) For amounts received from General Fund:		
Dr. Cash	$4 260	
Cr. Sinking Fund Requirements		$4 260
(Corresponding entry in General Fund, Chapter X)		
(3) For special tax levy for Sinking Fund:		
Dr. Taxes Receivable	$5 000	
Cr. Sinking Fund Requirements		$4 500
Estimated Uncollectible Taxes		500
(4) As taxes are collected:		
Dr. Cash	$3 000	
Cr. Taxes Receivable		$3 000
(5) Balance of Bond Fund transferred to apply to payment of bonds:		
Dr. Cash	$740	
Cr. Sinking Fund Requirements		$740
(Corresponding entry in Bond Fund, Chapter XVI)		
(6) For purchase of investments:		
Dr. Investments	$8 000	
(Accrued Interest Purchased, and Premium, if any)		
Cr. Cash		$8 000
(Discount, if any)		
(7) For income on investments:		
Dr. Cash	$300	
Cr. Income		$300
(Accrued Interest Purchased, if any)		
(Also entries to Premium and Discount, if needed)		

(8) For sale of investments:		
Dr. Cash	$5 200	
(Income, for loss)		
Cr. Investments		$5 000
Income (for profit)		200
(9) To transfer accumulated income to "requirements":		
Dr. Income	$500	
Cr. Sinking Fund Requirements		$500
(10) For bonds retired:		
(a) Dr. Reserve for retirement of bonds	$5 000	
Cr. Appropriations		$5 000
(b) Dr. Appropriations	$5 000	
Cr. Cash		$5 000
(Also see entries in Fixed Assets and Liabilities Accounts, Chapter XVIII)		
(11) For amortization of discount:		
Dr. Discount		
Cr. Income		
(12) For amortization of premium:		
Dr. Income		
Cr. Premium		

SINKING FUND ACCOUNTS

Sinking Fund Requirements

(1) Amount which must be paid in from all sources to meet sum required for that year	$10 000	(2) Amount paid over from General Fund	$4 260
		(3) Amount anticipated from special tax levy for sinking fund purposes	4 500
		(5) Balance of Bond Fund	740
		(9) Income of fund for year	500

(If estimates are being met, account will be closed at end of each year.)

Cash

(2) From General Fund	$4 260	(6) Investments purchased	$8 000
(4) Taxes	3 000	(10) Bonds paid	5 000
(5) From Bond Fund	740		
(7) Income on investments	300		
(8) Sale of investments	5 200		

SINKING FUND ACCOUNTS (*Continued*)

Investments

(6) Investments purchased (at par value if permanent, at cost if temporary)	$8 000	(8) Investments sold	$5 000

Premium on Investments

(6) Premium paid on investments purchased to be held to maturity	(12) Annual amount amortized to Income to close out during life of investment

Taxes Receivable

(3) Taxes levied	$5 000	(4) Taxes collected	$3 000

Estimated Uncollectible Taxes

		(3) Amount reserved	$500

Appropriation

(10) Bonds paid	$5 000	(10) For bonds	$5 000

Reserve for Retirement of Bonds

(10) Appropriations	$5 000	(1) Amount of "requirements" set up each year to retire bonds	$10 000

Discount on Investments

(May be Combined with Premium)

(11) Annual amount amortized to Income to close out during life of investment	(6) Discount on investments purchased to be held to maturity

Investments Income

(8) Loss on sale of investments		(7) Income on investments	$300
(9) To "requirements"	$500	(8) Profit on sale of investments	200
(12) Amortized premium		(11) Amortized discount	

(Unused balance carried to Surplus at end of year)

SINKING FUND ACCOUNTS (*Continued*)

SURPLUS

Amount applied to meet requirements of subsequent years	Income of year in excess of requirement

Sinking Fund Balance Sheet. The Sinking Fund Balance Sheet, Statement 32, shows the condition of a single sinking fund. A summary balance sheet may be constructed in columnar form, covering all sinking funds.

STATEMENT 32—SINKING FUND BALANCE SHEET

Cash		$ 500	Appropriations	
Investments		3 000	Reserve for Retirement of Bonds	$5 000
Premium			Surplus	
Taxes Receivable	$2 000			
Less: Uncollectible	500	1 500		
		$5 000		$5 000

Other Statements. The operations of sinking funds are included in the following statements:

Statement of Receipts (See Chapter VII).
Summary of Receipts and Disbursements (see Chapter IX).

The information necessary for these statements may be summarized as per Statement 33.

STATEMENT 33—SINKING FUND OPERATIONS

Receipts		*Disbursements*	
REVENUE:		APPROPRIATION:	
Taxes	$3 000	For Bonds	$5 000
Income and Profit on Investments	500		
NON-REVENUE:		NON-APPROPRIATION:	
Sale of Investments	5 000	Purchase of Investments	8 000
TRANSFERS:		Cash Balance	500
From General Fund	4 260		
From Bond Fund	740		
Total	$13 500	Total	$13 500

CHAPTER XVIII

FIXED ASSETS AND LIABILITIES

Segregation of Fixed Assets and Liabilities. In Chapter II the principle of "segregation of fixed items" was discussed. In the chapters treating revenue funds it was shown that no fixed items appeared therein even though some one of those funds made use of the acquired fixed asset or helped to pay off the bond obligation. It has also been shown that the fund which disposes of the proceeds of the bond issue (Bond Fund) does not carry the fixed assets or liabilities in its accounts. Further, the fund (Sinking Fund) which accumulates the amounts to retire the bond issue does not show the liability except under certain circumstances when the entire sum needed to liquidate the indebtedness is available.

For the purpose of carrying out the principle of segregation, a separate group of accounts is maintained, known as Fixed Assets and Liabilities.[1] These accounts constitute a self-balancing group and, although cash operations are not carried out through them as far as the accounts and reports are concerned, they occupy the status of a fund. All fixed assets and liabilities of the governmental body are included in this group except the following:

1. Bond obligations which have been floated to take up revenue fund deficits. In this case the Funded Deficit and the Bonds Payable are shown in a separate part of the statement for the revenue fund after the current position has been displayed. (See later discussion in this chapter.)

[1] A plan frequently is followed in which resources expendable for capital purposes are carried in the same group with fixed assets and liabilities under the caption Capital Funds. It is considered preferable, however, to account for expendable capital resources separately as special revenue funds or bond funds.

2. Fixed assets used in the operation of working capital funds may be carried in those funds with proper segregation of current items.

3. Fixed items of utility funds are shown in those funds.

4. Bonds relating to special assessment projects are accounted for in those funds.

5. When a fixed asset is held as a trust, it will be shown in the trust fund accounts almost always as an asset of a non-expendable fund.

Accounts for Fixed Items Necessary. The accounts and reports of a governmental body should include fixed assets which it owns and fixed liabilities for which it is obligated. Their inclusion serves a different purpose from that served by similar items in the records and statements of a private business. Such assets in a government, with few exceptions, are not a security for the payment of debt obligations and are not a basis for credit. Their current valuation, therefore, is a matter of little significance. They do, however, represent property which the government has acquired and for which it is responsible and accountable. This accountability can best be carried out by including the assets in the general accounts, through which a better control over the property itself can be exercised. By including them in these accounts and in the Balance Sheet, the amount invested in such property at any date is made available. Fixed liabilities, representing as they do a specific obligation, even though payable at a future date out of resources not yet realized, should be recorded in the general accounts and included in all financial statements. If these items are properly segregated from the accounts of current assets and liabilities in the manner indicated herein, no difficulty should arise from their inclusion.

Various Classes. Governmental property of a permanent nature is acquired under a variety of conditions which affect the manner in which it should be accounted for. Some property is definitely related to the operation of an enterprise of a business character, such as a utility. Occasionally, equipment and even other fixed assets may be acquired

in connection with a working capital fund, to be amortized out of its income. Fixed property may be received by gift or otherwise acquired as a part of a non-expendable trust fund.

In addition to the foregoing, fixed assets of a general type are acquired out of many funds. In some cases, such property relates to specific departments; in others it is for the use of the governmental body as a whole.

Likewise, bond liabilities are created under a variety of circumstances. In smaller governments, such obligations are most frequently entered into in order to provide funds for some capital project. Occasionally, as in utilities, the property thus acquired is pledged as a security for the debt. Bond obligations sometimes are necessary to liquidate an accumulated operating deficit or to meet some emergency, such as flood, unemployment relief, or soldiers' bonus. Bond obligations also arise in special assessment projects where the debt is a lien only on the assessments made against individual properties.

Fixed property of a government may be acquired through one or more of the following methods: (1) by purchase; (2) by job construction or construction by the government itself; (3) by contract construction; (4) by gift. As to financial resources, they may be acquired also in several ways: (1) by expenditure out of some revenue fund or trust fund; (2) by proceeds of a bond issue; (3) by gift, involving no expenditure of funds.

Accounting Methods. The accounting procedures necessary for fixed assets and liabilities in working capital funds, utility funds, special assessment funds, and trust funds have been discussed in the chapters relating to those funds.

Accounting for general property and general bond liabilities presents a variety of possibilities. Where these items relate to activities maintained by special funds, such as a school fund or a library fund, they may be included in the accounts of those funds so long as they are separated from the current group of accounts, and the surplus or equity represented by fixed assets is separated from the expendable

surplus of the funds. All general property and liabilities may be accounted for, however, in the Fixed Assets and Liabilities Accounts and not as a part of any fund.

In accounting for fixed assets and liabilities as a separate group, two methods of procedure are also found. One method is to handle both assets and liabilities in a single group, with a balancing figure of Excess of Fixed Assets over Fixed Liabilities. This is the method followed herein. It has the advantage of bringing together in one group all accounts of this kind, thus simplifying their presentation and segregating them from current accounts entirely.

Another plan is to separate fixed assets from fixed liabilities, making two groups. In the asset group, all of the fixed assets appear, offset on the credit side by an item Investment in Fixed Assets. This account, therefore, represents the total book value of fixed assets at any date, irrespective of any fixed liabilities. In the liability group of accounts, accounts of bonded indebtedness of a general character appear as liabilities, offset on the asset side by an account Amount to be Provided from Future Revenues, or similar title. This plan has the advantage of separating the fixed assets from the bond liabilities, which is justified because the latter are not a lien against the former and often have no relation thereto.[1] In presenting a balance sheet under this plan, an additional item is shown on the asset side of the bonded debt group, Amount in Sinking Funds (from the account Reserve for Retirement of Bonds), which sum is deducted from the balance of the account Amount from Future Revenues.

A still further variation of procedure consists in carrying bond liabilities, incurred on account of deficits in operation, in the fund in which the deficit occurred, instead of in the Fixed Assets and Liabilities Accounts. For example, if such a deficit arose, from emergency or otherwise, in the General Fund, the accounting procedure would be as follows in that fund:

[1] This procedure is recommended in the publications of the National Committee on Municipal Accounting.

When the obligation is entered into, the entry as to the cash is the same as for other loans:

For cash received from bond issue for current deficit:
In General Ledger (from Cash Receipts Journal):
Dr. Cash
Cr. Revenue Bonds Payable (with description)

At the same time, an entry should be made which will properly exhibit the deficit in relation to the current resources and obligations of the fund, as follows:

In General Ledger (from General Journal):
Dr. Funded Deficit
Cr. Unappropriated Surplus

This indicates that a portion of the amount hitherto appearing as an overdraft or deficit of the Unappropriated Surplus is now "funded" and is no longer a charge against the resources of the fiscal period.

When any of these bonds is to be paid, the entries would be

1. Dr. Expenditures
   Cr. Cash
2. Dr. Revenue Bonds Payable
   Cr. Funded Deficit

The accounts Funded Deficit and Revenue Bonds Payable appear under this plan as a part of the balance sheet of the General Fund or of any fund to which they relate. The plan has the advantage of directing attention continuously to the fact that a deficit of that fund has been funded and must be liquidated out of future revenues of that fund.

Classification of Permanent Property. Permanent property may be classified broadly under the following headings:

1. *Land and land improvements,* the latter including such items as trees and fences.

2. *Buildings.*

3. *Improvements other than buildings,* such as tunnels, sewers, walks, pavements, wharves, bridges, minor structures.

4. *Movable equipment,* such as furniture, apparatus, and machinery. Detailed classifications of equipment are necessary for each different type of governmental organization as its needs may demand.

The foregoing classifications may be used as control accounts in the General Ledger for the detailed records of the various classes of property indicated by them.

Property Acquired through Special Assessments. In most governmental bodies a considerable investment is represented in street improvements, lighting and sewer systems, sidewalks, and other public improvements which have been acquired through special assessments. There are three general methods followed in accounting for such improvements. One method is to ignore such investment for accounting purposes because the acquisition has been by special assessment. Another is to carry in the accounts the amount that is classed as public benefit. The third is to carry the full value as represented by the amounts paid on assessments against individuals as well as for public benefit.

The authors do not consider it proper to capitalize the entire cost of such an improvement since all but the public benefit has been paid for by individual property owners and represents an increase in the value of their property. A separate statistical record may be maintained of the total cost of such improvements. However, the governmental body concerned does have a certain investment in such improvements so that something should be shown in the Fixed Assets and Liabilities accounts. That amount of investment is the amount that has been transferred from certain funds, obtained from general revenues, to the Special Assessment Fund as Public Benefit. The latter is the method followed here.

Accounting Procedure. Reference has already been made, under Bond Funds and Sinking Funds, to property accounts and accounts of bonded indebtedness incident to property acquisition.

The entries for such transactions in the Fixed Assets and Liabilities accounts are as follows:

(1) When bonds are issued (see Chapter XVI):		
Dr. Improvements in Progress	$100 000	
Cr. Bonds Payable		$100 000
(Corresponding entry in Bond Fund, Item 1, Chapter XVI)		
(2) When work is completed (see Chapter XVI):		
Dr. Fixed Assets	$98 260	
Excess of Fixed Assets over Fixed Liabilities	1 740 *	
Cr. Improvements in Progress		$100 000

* To cover difference between total bonds issued and cost of property acquired.

The title Fixed Assets is used herein as a general title covering all classes of such assets. In practice, this single account would be replaced by various accounts for the different classifications as already described.

In the General Ledger or elsewhere a control account must be maintained for each separate bond issue, the details of which will appear in the subsidiary Bond Register.

(3) When bonds are paid:		
Dr. Bonds Payable	$5 000	
Cr. Excess of Fixed Assets over Fixed Liabilities		$5 000

The foregoing entry is in addition to the entry in the Sinking Fund (see Chapter XVII) or to the entry in a revenue fund if the payment is made directly from an appropriation in such a fund.

(4) When property is acquired out of appropriations from revenue funds or from trust funds (Chapters VIII and XV):		
Dr. Fixed Assets	$1 000	
Cr. Excess of Fixed Assets over Fixed Liabilities		$1 000
(5) When property is disposed of or worn out:		
Dr. Excess of Fixed Assets over Fixed Liabilities	$1 000	
Cr. Fixed Assets (at cost)		$1 000
(See entry relating to sale in Chapter VII)		

(6) When Public Benefit instalment is paid into Assessment Fund:

Dr. Fixed Assets $1 000

Cr. Excess of Fixed Assets over Fixed Liabilities $1 000

(See also Chapters X and XIV)

If desired, the entire amount of public benefit may be set up at the time the improvement is completed, showing the unpaid portion of the assessment for public benefit as a liability to the Special Assessment Fund in the Fixed Assets and Liabilities accounts. As payments are made, this liability would be decreased, and surplus increased.

(7) When property is acquired by gift:

Dr. Fixed Assets (at cost to donor, or appraised value, or nominal value of $1.00)

Cr. Excess of Fixed Assets over Fixed Liabilities *

* It is desirable to subdivide this account to show separately amounts representing gifts, grants, revenues, etc.

Subsidiary Records. Complete subsidiary records should be maintained for all permanent governmental property. These records are in the form of registers, looseleaf ledger records, or card records. They give complete description of the tract of land, building, or article of equipment, date of purchase, from whom purchased, cost, and how used. All movable equipment should be placed under the custodianship of some responsible officer and that officer should be required to report regularly on this equipment and to account for it when it is used up or disposed of. The totals of all detailed records of permanent property must agree with the general ledger accounts showing Fixed Assets. Such controlling accounts as are necessary or desirable in each situation are maintained in the General Ledger.

When appraised values are determined for insurance purposes, a separate record should be kept of these values and the accounts continued on a cost basis.

An additional subsidiary record is required in the form of a Bond Register. This register should be kept in such a way as to show all bonds issued and their complete history, including interest transactions. The totals for each issue

in this register must agree at all times with the control account for that issue.

Depreciation. It is noted that accounts with property are charged with the cost of all property acquired and that, when and if any property is disposed of, the accounts are credited with the cost of that property. Ordinarily, it is unnecessary to take account of depreciation of permanent property. The reasons for omitting depreciation from the accounts were discussed in Chapter II under the Valuation Principle. They need not be repeated here.

These reasons do not apply to any governmental operation in which profit and loss are involved, such as a public utility or similar enterprise. In such operations, depreciation should be entered as an expense, as in a private enterprise, and an accrued depreciation account credited (see Chapter XIII); also in a non-expendable trust fund (see Chapter XV).

If depreciation is entered for general property, Excess of Fixed Assets over Fixed Liabilities is simply debited and an accrued depreciation account credited. Such an entry is of no value or significance unless at the same time, depreciation can be entered as an expense of the fund or funds through which the asset was acquired. Again, such an entry is futile and valueless unless at the same time a fund can be set up for use in replacement of such property. This is possible only if the item can be included in the budget and if any balance in the fund can be forwarded from year to year until it is required to meet expenditures for replacement.

General Ledger Accounts. The following general ledger accounts are required for general fixed assets and bonded indebtedness:

Fixed Assets

(2) Property acquired (Bond Fund) (at cost)	$98 260	(5) Property disposed of or worn out (at cost)	$1 000
(4) Property acquired (revenue funds)	1 000		
(6) Portion of special assessment project	1 000		

IMPROVEMENTS IN PROGRESS

(1) Bonds issued	$100 000	(2) Work completed	$100 000

BONDS PAYABLE

(3) Bonds paid	$5 000	(1) Bonds issued	$100 000

EXCESS OF FIXED ASSETS OVER FIXED LIABILITIES

(2) Excess of bonds over cost of property	$1 740	(3) Bonds paid	$5 000
(5) Property disposed of or worn out	1 000	(4) Property acquired out of revenue funds	1 000
		(6) Portion of special assessment project	1 000

Balance Sheet. The balance sheet of Fixed Assets and Liabilities appears as per Statement 34.

STATEMENT 34—FIXED ASSETS AND LIABILITIES
BALANCE SHEET

Fixed Assets	$99 260	Bonds Payable	$95 000
Improvements in Progress		Excess of Fixed Assets over Fixed Liabilities	4 260
	$99 260		$99 260

Statement of Fixed Assets. A statement showing the changes in all general fixed accounts since the previous report should be prepared at least annually in a form similar to Statement 35. The classification of property is that already indicated but may be modified to meet varying conditions. Additions include: expenditures from bond funds, as shown in Chapter XVI; amounts paid on the city's share of assessable improvements, as per Chapter XIV; expenditures for fixed assets made from revenue fund appropriations and capitalized in the fixed asset accounts as indicated in this chapter; gifts of fixed assets, at cost or appraised value. Any adjustments that increase the book value of assets would also be added.

Deductions include: property sold during the period, which must be entered herein at the value shown on the books (see Chapters VII and XVIII); property lost through

STATEMENT 35—STATEMENT OF CHANGES IN GENERAL FIXED ASSETS

	Land	Buildings	Improvements Other Than Buildings	Equipment	Improvements in Progress	Total
Balance—beginning of period						
Add:						
Improvements in progress (Bond Fund, Chapter XVI)						
Charges during year					$100 000	
Less: Completed during year					100 000	
Net expenditure for year					$ 000	$ 000
Expenditures from Bond Fund—Completed Projects (Statement 31)	$15 000	$72 148		$11 112		98 260
Public Benefit portion of special assessment projects (Statement 26)			$1 000			1 000
Expenditures from revenue funds (Chapter XVIII)				1 000		1 000
Gifts						
Increase in value through appraisal						
Total Additions	$15 000	$72 148	$1 000	$12 112		$100 260
Deduct:						
Property sold (Chapters VII and XVIII)				$1 000		$1 000
Loss by fire, flood, or other calamity						
Property worn out and written off						
Total Deductions				$1 000		$1 000
Balance—end of period	$15 000	$72 148	$1 000	$11 112		$99 260

STATEMENT 36—STATEMENT OF

Purpose of Issue	Date	Date of Maturity	Interest Rate	Annual Interest	Amount Authorized
(*a*) PAYABLE FROM SINKING FUNDS:					
Total					
(*b*) PAYABLE SERIALLY:					
Total					
Total					

fire or other cause; property becoming unfit and removed from use. The balance represents property on hand and agrees with the control account or accounts in the Fixed Assets and Liabilities accounts.

A similar statement should be prepared for fixed assets, held by specific funds such as utility funds. There should be supporting statements showing the distribution of fixed assets by departments.

Records and Statements of Bonded Debt. Accounts of Bonds Payable are controlling accounts and must be supported by detailed records of each issue, giving full history and description and entry of all transactions relating to payments of both principal and interest. A bond register should be used for this purpose.

A regular statement should be made from these records in the form of Statement 36. This statement is of value in determining the relation of the total debt to the assessed valuation of taxable property because in many cases a limit is set on the amount of debt that may be incurred in comparison with assessed valuation.

The different issues are grouped under two headings:

GENERAL BONDED INDEBTEDNESS

Issued Date of Previous Report	Issued Since Previous Report	Redeemed Since Previous Report	Amount Outstanding This Date	Amount in Sinking Fund	Net Bonded Debt This Date

(1) those payable from sinking funds; (2) those payable serially from other funds.

If any bonds issued in special assessment funds are *general obligation bonds,* in other words, are a lien against the general credit of the issuing body, they should be incorporated in this schedule or a reference to the special assessment bond schedule should be made.

Other statements of bonds payable should appear in connection with reports of assessment funds (Chapter XIV) and of utility funds (Chapter XIII), covering the bonds payable from those respective funds.

Bonds are sometimes issued on what is known as a *self-liquidating plan.* Such bonds are usually payable from the income of the project for which they were issued, for example, a bridge, a dock, or an auditorium. If they are payable solely from specific incomes, a separate statement of such bonds should be made, classified as to the specific sources of income from which they are to be liquidated. If they are issued as general obligation bonds, they should be included in the Statement of General Bonded Indebtedness.

The arrangement of Statement 36 may be reversed, using column headings as side headings and present side headings

as column headings should the number of separate issues be small.

Overlapping Debt. In addition to bonds of the governmental unit itself, information should also be available concerning *overlapping debt.* Overlapping debt represents that portion of the indebtedness of another governmental unit which covers territory included in the unit under consideration. For example, in the territory served by a given municipality, one or more school districts, park districts, sanitary districts, and other agencies with power to issue bonds may be included. Likewise, the territory of a municipality may be a part of a town or county having similar authority. That portion of such indebtedness which may be related to property in the municipality under consideration is considered the overlapping debt of that municipality. Information concerning such indebtedness, though not a part of the accounts of the municipality, nevertheless is needed in order to show the complete picture of bond indebtedness of that territory.

CHAPTER XIX

FINANCIAL REPORTS

Importance. The preparation and distribution of financial reports are among the most important duties of the financial officers of both public and private concerns. Such officers should find therein some of their most valuable opportunities for presenting the results of their stewardship and that of their colleagues in the administrative group. Financial reports are primarily informative in nature and design, but they have the additional possibility of presenting a comprehensive and accurate return of the stewardship involved in the office and of constituting a permanent and accessible record of the transactions and affairs which are reported.

In governments and public institutions, properly designed financial reports are of the utmost service and importance to all persons directly interested in the administration of the affairs as well as to the public at large. Legislative bodies, boards, officials, department heads, and all persons responsible for public funds and operations must regularly have, for intelligent action, adequate and understandable financial reports of the activities for which they are responsible. No public officer responsible for the handling of funds can afford to be without the protection provided by frequent, properly verified reports. The citizen public must depend to a considerable degree upon such reports for correct information as to the affairs involved.

Information provided by properly prepared financial reports of governmental bodies is needed by investors in bond and note obligations of those agencies. Such information is now required when obligations of private concerns are offered to the public. It is of no less significance for

public activities and should be regularly demanded and supplied in addition to the assurances now generally required as to the legal phases of the offerings.

General Qualities. The qualities of a good financial report, whether public or private, consist especially of *clearness, brevity,* and *completeness.* Clearness has to do with arrangement of material, with terminology and descriptions, and with indexing. Brevity, as well as completeness, must be governed by the purposes of the particular report and the uses to which it is intended to be assigned. Reports of governments and governmental bodies cannot be presented, as a rule, with the commendable brevity which marks many present-day reports of private corporations. Activities of governments are more diverse and segregated. Funds of governments must be dealt with in accordance with their individual scope and nature and without loss of identity. For these reasons it is usually of little service to exhibit gross transactions or gross resources and obligations without analysis to show the limitations and relationships of the various items.

Properly designed reports must permit complete reconciliation with the accounting records on which they are based. In addition, they should reconcile fully with all previous reports of the same kind so that the entire set constitutes a complete and continuous collection of financial statistics.

Classes of Reports. Reports rendered by public financial officers may be classified as follows:

1. Reports to heads of departments.
2. Reports to executives, boards of control, and legislative bodies.
3. Reports to the public.

Each of these various classes of reports, being designed for a particular purpose, requires different arrangement and method of procedure in spite of the fact that, for the most part, they all have to do with the same financial data.

Reports to Heads of Departments. Reports to heads of departments consist chiefly of statements of the condition

of appropriations. Various methods of presentation for such statements are in common use, running from the one method of giving periodically a simple report that a certain amount of balance remains unexpended in a given appropriation to the opposite extreme of a completely detailed statement of every transaction having to do with the appropriation, with full explanation.

A type of report that meets the needs of this class of statement particularly well and which is now commonly used consists of a combination ledger-statement form, in which the statement to the department head is prepared, by means of a typing machine and in multiple form, during the course of the period, at the time when the entries are made in the accounts. This type of report is particularly adapted to the accounts with appropriations kept by public institutions and governmental departments. Numerous types of bookkeeping machines, designed for use in such a plan, are now obtainable, their practicability already having been established. A report of this kind combines the advantages of an exceptionally complete and serviceable ledger account, making up the original record, with an unusually intelligible and valuable statement for the use of the department heads; and, in addition, by means of its mechanical features, it makes possible the keeping of the accounts with minimum bookkeeping difficulties and maximum clerical accuracy and efficiency. (See Form A, Chapter VIII.)

Reports concerning departmental appropriations should take into account not only vouchers paid out of the appropriation, but all encumbrances as well, whether in the form of vouchers payable or of orders or contracts which will become liabilities. In other words, such reports should show the free or unencumbered balances of appropriations.

Reports to Executives, Boards, and Legislative Bodies. Reports to executives, boards, etc., prepared for administrative use and reference, are commonly rendered monthly or quarterly. They include all statements necessary to show the condition and operation of the various funds. The state-

ments desirable for such reports have been for the most part reviewed herein. They include:

1. Statement of Realization of Revenues (see Chapter VI).
2. Statement of Appropriations (see Chapter VIII).
3. Statements of the operation of special funds, such as working capital funds, utility funds, special assessment funds, trust funds, bond funds, and sinking funds (see Chapters XI; XII; XIII; XIV; XV; XVI; XVII).
4. Statement of Bonded Indebtedness (see Chapter XVIII).
5. Individual fund balance sheets (various chapters).
6. Statement of Receipts and Disbursements (see Chapter IX).
7. Statement of the Treasury with a reconciliation between the treasury balances and the accounting office balances (see Chapter IX).

Reports including the above schedules should be prepared monthly or quarterly, complete copies being sent to executives and general administrative officers, also to boards or other legislative bodies when they meet frequently. Copies of individual schedules should be sent to various officers interested. Such reports are used for constant reference by the financial officer and are his chief guide for purposes of financial control.

Reports to the Public. Reports intended for public distribution call for particular care in their preparation, not only that the facts presented may be complete and accurate but also that they may be properly understood by the persons for whom they are intended. It is not ordinarily necessary to include in such reports the extent of detail required in reports for internal use. On the other hand, all essential information should be included which will give an adequate report of what has occurred and what is the present condition.

Published reports should be completed and issued as promptly as practicable after the end of the period to which they relate. They should be attractive and convenient so that they encourage examination and facilitate reference. Care in arrangement, style, cross references, indexing, and other details will aid in accomplishing these ends. Illustra-

tive material, such as charts, pictures, and other suitable material, is useful in attracting attention and increasing understanding.

A condensed summary of the principal facts of the report and an explanation of its contents are essential. This material should answer readily the chief questions the reader is likely to ask concerning the governmental unit under consideration. The principal financial statements should not contain too many details; if details are required, they should be presented in supplementary statements.

Content of Public Reports. It is difficult to present an outline for public reports which would be applicable to all types of governments and public institutions. The following outline is suggested and covers the principal material which should be included in most reports, with due allowance for variations in scope of operations and activities:

1. Letter of transmittal or introductory summary.
2. Comparative condensed summary statements.
3. Certificate of audit by certified public accountant.
4. Balance sheet for each fund (see Statement 37).
5. An analysis of surplus of each revenue fund, department, or institution which is operated as a distinct financial entity (see Statement 15).
6. Statements of revenues of each revenue fund and comparison with budget estimates (see Statement 3).
7. Statements of expenditures of each revenue fund and comparison with budget estimates (see Statement 7, also Statements 39 and 40).
8. Operating statements for each utility or public service enterprise (see Statement 22).
9. Statements of operations of special funds, such as working capital funds, special assessment funds, trust and agency funds, bond funds, sinking funds (see chapters dealing with these funds).
10. Statements of changes in fixed asset accounts (see Statement 35).
11. Debt statement (see Statement 36).
12. Summary statement of cash receipts and disbursements (see Statement 9).
13. Special financial or statistical statements.

Letter of Transmittal. The letter of transmittal should indicate the authority for and the purpose of the report and its relation to previous reports. It should state the scope of the report and its contents. It should contain or be followed by a readable commentary on the principal facts of the report, with such explanations as are necessary to clarify them and arouse interest in them. It may well include general information concerning the business organization and procedure and may also include recommendations.

Comparative Summaries. The letter of transmittal should be followed by a condensed summary of the principal financial tables of the reports, with comparative figures for the previous period or periods. This summary should be in a form that will present a readable, accurate, and comprehensive, though reduced, picture of the facts presented by the report. The detailed financial statements are important but should not be relied upon to serve or inform all persons who may be interested. Summary statements serve an important purpose in making the essential information available to many who do not concern themselves with the detailed material.

Balance Sheet. The purpose of a balance sheet in governmental affairs is to present in one exhibit all the resources and obligations, assets and liabilities of the government. It is not to determine the net worth or financial ability of the government but to exhibit the source, distribution, and realization of resources and the extent to which these resources have been assigned, mortgaged, or extended. Its purpose is essentially administrative, but when presented to the public it sets forth the financial position of the governmental body involved as of its date. When so used, its content and arrangement are of great importance and must be such that there will be no misunderstanding as to the relation among and the restrictions on the various items. The statement may be, and sometimes is, called a "Statement of Financial Position" (or "Condition").

The governmental Balance Sheet, first of all, must be analyzed or segregated by funds. The balance sheets of

funds must include both accounts of actual assets and of resources expected to become expendable assets. They must include not only audited liabilities but also contracts or other encumbrances which are expected to become liabilities payable out of the resources of the fund as stated, also the commitments of the resources of the funds in the form of appropriations and reserves.

On any given date during a fiscal period, the Balance Sheet to be correct must contain all accounts necessary to exhibit correctly the condition of each fund as at that time and to indicate the amount of surplus of each fund available for appropriation, which is the only figure of surplus that is significant. At the close of a fiscal period, accounts that are fiscal in nature are closed, and the Balance Sheet therefore consists mainly of real assets and liabilities.

Fund Balance Sheets. For each fund, a separate balanced statement must be made, and no arrangement of the Balance Sheet should be permitted that combines the surplus of all, unless the amount applicable to each is clearly shown. The items entering into these balance sheets currently vary somewhat for the various classes of funds but may be classified as follows:

ASSETS

Current Assets

Cash.

Receivables:

Taxes. } Less: Estimated Uncollectible
Accounts. }

Assessments.

Loans.

Judgments.

Inventories (when representing resources of funds and available to meet the obligations of funds):

Stores.

Work in Process (Working Capital Funds).

Amounts due from other funds for current transactions.

Accrued Items

Need not be set up unless due, except where profit and loss is involved (see Utility Funds).

Other Assets

Permanent advances to other funds.

Deferred Items

Need not be set up unless they are to be liquidated out of future income of funds, such as

Premium on Investments (Trust and Sinking Funds).

Interest (Assessment Funds).

Deferred Expenses in Utility Funds.

Budgetary and Other Fund Resources

Estimated Revenues.

Bonds Authorized and Unissued (Deduct from Bonds Payable, contra, if that account appears).

Reimbursable Expenditures.

Assessable Authorization of Assessment Funds.

Sinking Fund Requirements.

Liabilities, Reserves, and Surplus

Current Liabilities

Warrants Payable (if this account is used).

Accounts Payable.

Temporary Loans Payable.

Due to Other Funds for Current Transactions.

Judgments Payable.

Accrued Items

Need not be set up unless due, except where profit and loss is involved.

Fixed Liabilities (when payable out of the resources of funds; otherwise, see Fixed Assets and Liabilities)

Utility Bonds Payable.

Special Assessment Bonds Payable.

Other Liabilities

Permanent advances from other funds.

Deferred Items

Revenue received in advance of period to which it belongs.
Interest (Assessment Funds).
Deferred Income, where profit and loss is involved.

Budgetary and Other Fund Obligations

Encumbrances.
Appropriations.

Reserves and Surplus

Reserve for Working Capital.
Reserve for Petty Cash.
Reserve for Retirement of Bonds.
Trust and Agency Funds Balance:
  Non-Expendable.
  Expendable.
Assessment Funds Balance.
Bond Funds Balance.
Surplus of Assessment and Sinking Funds.
Unappropriated Surplus of Revenue Funds.

Separate fixed asset and liability sections of the Balance Sheet should appear, including accounts with permanent property, with bonded indebtedness of a general nature, and a balancing figure representing the excess of fixed assets over fixed liabilities.[1] These accounts may be classified with different funds or presented in one or more separate groups. In either way accounts relating to property and to bonded indebtedness are included in the accounts of the government and in its balance sheet, but not in such a way as to be combined with expendable resources.

Summary. A comprehensive and serviceable governmental balance sheet, therefore, consists of

1. Balanced statements of the respective funds, showing for each.

    Assets and other fiscal resources.
    Liabilities and other fiscal commitments.
    Surplus or fund balance.

[1] See Chapter XVIII for optional treatment.

2. Balanced statement (or sections under the respective funds) showing:

   Property owned and in use for governmental purposes.
   Bonded indebtedness of a general nature.
   Excess of fixed assets over fixed liabilities.

These statements should be assembled in balance-sheet form, each section complete in itself and without merging or cancellation of items as between sections.

The various funds that enter into the Balance Sheet have been reviewed herein. They include particularly

Revenue Funds (Chapters V and X).
Working Capital Funds (Chapters XI and XII).
Utility Funds (Chapter XIII).
Assessment Funds (Chapter XIV).
Trust and Agency Funds (Chapter XV).
Bond Funds (Chapter XVI).
Sinking Funds (Chapter XVII).

Fixed assets and liabilities are treated as per Chapter XVIII.

Form of Balance Sheet. The form of the balance sheet covering all funds may be either sectional or columnar. The sectional form of balance sheet exhibits each fund separately, as per Statement 37. The columnar form of consolidated balance sheet shows the assets and liabilities of each fund and also the grand total of similar assets of the different funds, such as cash, as per Statement 38.

It should be understood that the combining of figures of the various funds into one total in this manner does not in any way lessen the fund restrictions relating to them. The aggregate figure of cash, for example, simply means that the total cash of all funds is this amount; but this sum is distributed among the various funds as indicated in the different columns.

Also, it should be noted that this is not a "consolidated" balance sheet. Interfund items may not be offset against each other as is done in a consolidated balance sheet of

related private concerns. Were this done, the true condition of each fund would not be revealed. This is only a "combined balance sheet," in which the separate balance sheets of all funds are brought together in a single exhibit.

An alternate form of statement would be to list the assets and their total, list the liabilities and their total, deduct the liabilities from the assets, and show the difference as the *surplus* or *fund balance* of each fund or fund group.

The illustrative balance sheets are compiled from data presented in previous chapters.

Statements of Revenue and Expenditure. Following the Balance Sheet, and properly linked to it, should be schedules of revenues, expenditures, and surplus, for the various revenue funds, the various schedules being properly keyed together and to the Balance Sheet, and vice versa. The schedules of revenue should present an intelligible analysis in accordance with the nature of the enterprise as per Chapter VI.

The report should state whether revenues and expenditures are reported on the cash basis or on the accrual basis. The statement of revenues should not include non-revenue receipts. The statement of expenditures should not include non-expenditure disbursements, such as payment of temporary loans.

It is important that expenditures be analyzed under a standard classification, such as outlined in Chapter VIII, uniform as to the departments of the government itself and, as far as possible, as to other similar governments. The prime requisite of such an analysis is that it be carried through on all schedules so that it reveals the distribution of expenses not only of individual departments but also of the principal divisions and of the government as a whole. It is of the largest service if the various items are reasonably general in nature and easily defined instead of being carried out in fine detail. To be of the most value, an analysis must be continuous for a succession of periods so that an accurate comparison may be established.

STATEMENT 37—COMBINED BALANCE SHEET, ALL FUNDS

Assets

General Fund (after Chapter XVII):			
Cash		$10 738	
Petty Cash		500	
Advances for working capital		7 000	
Due from Special Fund		1 000	
Due from Utility Fund		10 000	
Total			$29 238
A Special Revenue Fund (Chapter X):			
Cash		$4 960	
Taxes Receivable	$2 020		
Less Uncollectible	1 036	984	
Total			$5 944
Working Capital Fund (Chapter XII):			
Cash		$2 900	
Stores:			
Inventory	$ 810		
Outstanding orders	1 200	2 010	
Service Department (Work in Process)		2 600	
Due from General Fund		1 380	
Total			$8 890
Utility Fund (Chapter XIII):			
Cash		$ 11 480	
Depreciation Fund Cash		16 000	
Accounts receivable		33 320	
Inventories		21 230	
Due from General Fund		5 000	
Investments		15 000	
Utility plant	$807 000		
Less Depreciation	16 000		
		791 000	
Total			$898 030

Liabilities, Reserves, and Surplus

General Fund:		
Accounts payable	$ 2 840	
Due to other funds	6 380	
Reserve for encumbrances	2 200	
Reserve for working capital	7 000	
Unappropriated surplus	10 818	
Total		$29 238
A Special Revenue Fund:		
Accounts payable	$2 600	
Due to General Fund	1 000	
Unappropriated surplus	2 344	
Total		$5 944
Working Capital Fund:		
Accounts payable	$ 690	
Reserve for encumbrances	1 200	
Capital (from General Fund)	7 000	
Total		$8 890
Utility Fund (Chapter XIII):		
Accounts payable	$ 14 770	
Accrued expenses	13 080	
Due to General Fund	10 000	
Customers' deposits	3 000	
Bonds payable	400 000	
Reserve for Sinking Fund	15 000	
Net plant investment	407 000	
Earned surplus	30 180	
Total		$898 030

Special Assessment Fund (Chapter XIV):			
Cash for Bonds and Interest		$ 2 010	
Assessments receivable, by instalments		29 030	
City's share of assessable improvements, by instalments		2 500	
Total			$33 540
Trust and Agency Funds (Chapter XV):			
Non-Expendable Funds:			
Cash	$16 405		
Loans receivable	400		
Investments	3 500		
Unamortized Premium	95		
		$20 400	
Expendable Funds:			
Cash		4 235	
Total			$24 635
Bond Fund (Chapter XVI): *			
Sinking Fund (Chapter XVII):			
Cash		$ 500	
Taxes receivable	$2 000		
Less Reserve	500	1 500	
Investments		3 000	
Total			$5 000
Fixed Assets and Liabilities (Chapter XVIII):			
Property		$99 260	
Total			$99 260
Grand Total			$1 099 537

Special Assessment Fund:			
Bonds payable, by series		$32 400	
Fund balance	$ 660		
Add: Interest income	1 630		
	$2 290		
Deduct: Interest and collection expenditures	1 150	1 140	
Total			$33 540
Trust and Agency Funds:			
Non-Expendable Funds:			
Balance		$20 400	
Expendable Funds:			
Balance		4 235	
Total			$24 635
Bond Fund:			
Sinking Fund:			
Reserve for retirement of bonds		$5 000	
Total			$5 000
Fixed Assets and Liabilities:			
Bonds payable		$95 000	
Excess of fixed assets over fixed liabilities		4 260	
Total			$99 260
Grand Total			$1 099 537

* For the accounts appearing in this fund, see Chapter XVI.

STATEMENT 38—COMBINED BALANCE SHEET, ALL FUNDS
(Optional Form)

	General Fund (Chapter XVII)	A Special Revenue Fund (Chapter X)	Working Capital Fund (Chapter XII)	Utility Fund (Chapter XIII)	Special Assessment Fund (Chapter XIV)	Trust Funds (Chapter XV)	Bond Fund (Chapter XVI)	Sinking Fund (Chapter XVII)	Fixed Assets and Liabilities (Chapter XVIII)	Totals
ASSETS										
Cash	$10 738	$4 960	$2 900	$ 11 480	$ 2 010	$20 640	See Footnote, Statement 37	$ 500		$53 228
Petty Cash	500									500
Depreciation Fund Cash				16 000						16 000
Taxes receivable		2 020						2 000		4 020
Less: Estimated Uncollectible		1 036						500		1 536
Net balance		$ 984						$1 500		$2 484
Assessments receivable					29 030					$ 29 030
Loans or accounts receivable				33 320		400				33 720
Investments				15 000		3 595		$3 000		21 595
Stores			2 010	21 230						23 240
Advances to other funds	7 000									7 000
Due from other funds	11 000		1 380	5 000						17 380
City's share of assessable improvements					2 500					2 500
Work in process			2 600							2 600
Fixed property				807 000					$99 260	906 260
Total	$29 238	$5 944	$8 890	$909 030	$33 540	$24 635		$5 000	$99 260	$1 115 537
LIABILITIES, RESERVES AND SURPLUS										
Accounts payable	$2 840	$2 600	$ 690	$ 30 850						$ 36 98
Bonds payable				400 000	$32 400				$95 000	527 400
Due to other funds	6 380	1 000		10 000						17 380
Advances from other funds										
Reserve for encumbrances	2 200		1 200							3 400
Reserve for working capital	7 000									7 000
Reserve for retirement of bonds				15 000				$5 000		20 000
Working capital			7 000	16 000*						23 000
Fund balances:										
Non-expendable						$20 400				20 400
Expendable					1 140	4 235				5 375
Excess of fixed assets over fixed liabilities				407 000					4 260	411 260
Unappropriated surplus	10 818	2 344		30 180						43 342
Total	$29 238	$5 944	$8 890	$909 030	$33 540	$24 635		$5 000	$99 260	$1 115 537

* Depreciation reserve.

Statements of expenditures have very often consisted of lists of warrants or vouchers issued. Disbursements through warrants may or may not constitute expenditures, and, as in revenue and receipts, any differentiation should be evident. An itemized list of vouchers drawn is a thoroughly inadequate and impracticable report of expenditures. No satisfactory understanding of the operations of a government can be obtained from such a statement. Though it makes it possible to say that every feature of the finances has been published, it is likely to provoke more useless criticism than good. The best plan is to have the detailed transactions verified and certified by certified public accountants and then to present to the public a summary of transactions that is both comprehensible and informative.

Statements of Expenditures. The forms required for expenditure statements vary widely in different governments and conditions. Only a few illustrations are presented here.

Statement 39 is a summary by "departments," "activities," and "funds," in which the distribution of expenditures of each department and activity as to funds is exhibited. The General Fund, all special revenue funds, all bond funds, and trust funds should be included here. Whether other funds are included is a matter of choice and of local conditions, but if they are included they should be set out from the funds previously named because of their special character. Their operations are fully covered by separate statements. Statement 40 is a summary by "departments," "activities," and "character." In this schedule the expenditures by character for each department and activity are analyzed.

Additional schedules may be presented, showing the details of expenditures as to "object" for each department and activity. The information for such schedules comes from the Expenditure Analysis Ledger, described in Chapter VIII, which also provides the material for the preceding summaries. When the number of departments and activities is large, a separate statement may be presented for each

department and "activities" omitted from the general summaries.

Refunds of expenditures made in error and credited back to an appropriation account, as outlined in Chapters VII and VIII, should be deducted from expenditures when a statement of the latter is made.

Special Funds. Operations of special funds, such as working capital funds, utility funds, special assessment

STATEMENT 39—SUMMARY STATEMENT OF EXPENDITURES

BY DEPARTMENTS, ACTIVITIES, AND FUNDS

Departments Activities	Total	General Fund	A Special Revenue Fund	Bond Fund	Trust Fund
1. General Administration					
2. Public Safety					
(*a*) Police					
(*b*) Fire					
Total Public Safety					
3. Public Welfare:					
(*a*) Health					
(*b*) Charities					
(*c*) Protection					
Total Public Welfare					
4. Public Works:					
(*a*) Engineer					
(*b*) Buildings					
(*c*) Highways					
Total Public Works					
5. Education:					
(*a*) Public Schools					
(*b*) Colleges					
Total Education					
6. Recreation					
(*a*) Parks					
(*b*) Playgrounds					
Total Recreation					
7. Debt Service					
Grand Total					

NOTE. Figures are omitted from this and the succeeding statement since these details are not included in previous chapters.

STATEMENT 40—SUMMARY STATEMENT OF EXPENDITURES

BY DEPARTMENTS, ACTIVITIES, AND CHARACTER

Departments Activities	Total	Classification		
		Current Expense	Capital Outlay	Debt Service
1. General Administration				
2. Public Safety:				
(*a*) Police				
(*b*) Fire				
Total Public Safety				
3. Public Welfare:				
(*a*) Health				
(*b*) Charities				
(*c*) Protection				
Total Public Welfare				
4. Public Works:				
(*a*) Engineer				
(*b*) Buildings				
(*c*) Highways				
Total Public Works				
5. Education				
(*a*) Public Schools				
(*b*) Colleges				
Total Education				
6. Recreation:				
(*a*) Parks				
(*b*) Playgrounds				
Total Recreation				
7. Debt Service				
Grand Total				

funds, trust and agency funds, bond funds, and sinking funds, should be detailed in special statements, constructed along the lines necessary to set forth fully and accurately these operations and the conditions of these funds, as described in previous chapters.

Fixed Assets. Property owned by the government should be set forth in one or more statements, such as that illustrated by Statement 35, followed by detailed statements of such principal classes as land, buildings, improvements

other than buildings, and equipment. The figures of valuation should be the cost of the property to the government as of the date of the report. The report should be classified by departments, and equipment should be classified under such headings as furniture, apparatus, machinery, books, and livestock. The totals should be carried to the Balance Sheet, where they will appear in their proper relation, either as general property of the government, property used for utility or other business enterprises, or property representing investment of trust funds.

Bonded Indebtedness. The statements of bonded indebtedness are of special importance. Indebtedness should be classified as to the purpose for which it was incurred, whether for general purposes, or for local improvements covered by special assessments or for utilities. Full details of each issue should appear, including date, amount, purpose, interest rate and dates, maturities, amounts paid, amounts outstanding, and amounts on hand in sinking funds. The relation of the total general indebtedness to the taxing power, where this power is limited, should also be stated. The form for these statements is shown in Chapter XVIII.

Relation of Detailed Statements to Summary Statements. If financial statements contain too much detail, they lose their value. Summary statements should be presented so that final and total results may be obtained easily. On the other hand, statements that show too little may be worth little. To avoid either extreme the summary statements should be prepared, but they should be supported by detailed statements for the information of anyone interested. They should be keyed to each other so that easy reference is possible. In many cases the summary statements are sufficient for publication, but the details are often necessary for executives, department heads, and finance officers. Both should be prepared for their respective purposes.

Special Statements. The statements that have been described in this and other chapters may be considered as standard and in common use. Many special statements

may be desirable at various times to show other financial or statistical data. They may be prepared in a more or less conventional manner or they may be of the chart type, such as bars and circles. Any report for the public and even for internal use becomes more useful and understandable if well supplied with statements, illustrations, and charts. Information relative to source of revenue and disposition of the tax dollar are fairly common for such additional statements. Other situations where they may be valuable will depend on individual circumstances and on the judgment of the financial officers.

An increasing practice of much merit is observed in governmental bodies, in the preparation and wide distribution of a condensed report of finances in "popular" descriptive and graphic form, to supplement (not replace) the complete financial report. This type of report is favorably received by the interested public and will be more widely read and understood.

Responsibility for Reports. As previously indicated (Chapter II), responsibility for the preparation of financial reports ordinarily should be centralized in the chief financial officer of the governmental body or institution. Reports prepared by him should cover all financial operations even though the accounts of some of those operations are maintained in separate places. The financial reports should be transmitted through proper channels to the various executive officers and legislative bodies bearing his endorsement.

It is desirable in most governmental bodies that at least an annual financial report be published separately from other reports. It may be desirable, however, to incorporate in the general report of the body a condensed financial statement. In small governmental bodies the financial statements may be incorporated in a general report.

In many instances it is desirable that separate financial reports be issued of important departments or institutions of a governmental unit, such as hospitals, libraries, and utilities in city governments, state educational institutions

in state governments, and independent corporations of the federal government. In these instances the reports should be those of the chief financial or accounting officer of the institution or department covered by the report. The issuance of such separate reports, however, should not preclude the inclusion at least of condensed financial statements of such enterprises in the general financial report of the city, state, or federal government.

Confusion frequently arises if financial reports are issued by different financial officers, such as the comptroller or auditor on the one hand, and the treasurer on the other hand. Laws frequently require that treasurers issue reports of the operations of their offices. Such reports necessarily are limited in character and cover only cash operations. They should be incorporated in the general financial reports of the government involved, so that the figures incorporated in them can be coordinated with those of the general accountant.

Another problem arises in the relation between the report of the independent auditor and the report of the governmental official. This subject is further discussed in Chapter XX. The financial reports of a public body or agency should be prepared by the financial officer of that body. If at all possible, the independent auditor should review and verify those statements, so that he may certify to their correctness. In some instances it may be necessary for the auditor to prepare at least the main exhibits of the financial reports. In any event, the reports should be coordinated to the fullest extent possible and duplication avoided in their publication. The published reports should be those of the financial officer of the government concerned.

CHAPTER XX

AUDITS

Purpose of this Chapter. It is intended in this chapter that problems more or less peculiar in nature in the audit procedure relating to governmental bodies be emphasized. To discuss general auditing procedures does not seem essential since that subject has been treated thoroughly in other places and need not be duplicated here. Governmental audits do need some special attention, however, on account of the peculiarities of governmental accounting which have been described in earlier chapters. These peculiarities include especially (1) the division of the accounts into funds, (2) the entry of the budget into the accounts, (3) the absence of profit and loss accounts, and (4) the absence of capital accounts as such.

In the discussion which has preceded this chapter, many accounts have been used which are not found in general accounting procedure. The necessary audit procedure arising out of their use and inclusion is a subject that merits some attention. A complete and detailed audit procedure has been outlined and published by the National Committee on Municipal Accounting.[1] Duplication of that work will be avoided so far as possible, but reference to it is recommended.

The Audit Principle. The principle relating to audits was stated and discussed in Chapter II. It is restated here for emphasis.

A periodic audit by independent accountants is desirable.

[1] National Committee on Municipal Accounting: *Municipal Audit Procedure,* 1940.

Need for Governmental Audits. The usual necessity for any audit exists in governmental bodies. Fidelity, accuracy, and sound principles are just as important in a governmental system as in an industry. Every audit should determine as definitely as possible whether honesty and integrity have prevailed throughout the accounting procedure from the original transaction to the final statement and analysis. That audit should also determine, of course, the accuracy in all phases of the accounting. Certainly the auditor should have in mind at all times the sound principles of accounting which should be followed regardless of the type of organization for which the audit is being made.

There are conditions which exist in the governmental body which make audits even more necessary. One condition is the lack of continuity of management. Quite contrary to the situation which exists in most industrial and commercial enterprises, it is the usual condition that the officers entrusted with the management of a governmental body are changed frequently. The general effect of this condition upon the accounting is obvious. It presents problems of policy, ability, and honesty.

The policy of a group elected to office as it affects the accounting for a governmental body is not necessarily a political one. Party lines alone do not distinguish the individual ideas of those in power. A liberal group may be followed by a conservative one; a spending group may be followed by a thrifty one; and a strict group may be followed by a lenient one. These changes in management necessarily affect the accounting. In a democratic government this no doubt is proper and is not criticized here, but it is emphasized that the auditor faces a special condition as a result of such changes in policy.

The ability of the persons charged with the duty of keeping the accounting records cannot be overlooked by the auditor. Many times those elected or appointed to offices of this sort are lacking in qualifications that fit them for the work. In many cases proper age, residence, and majority of votes are the only legal requirements for such offices.

The auditor cannot disregard this situation as personnel changes.

Dishonesty cannot be ignored. Of course, this factor may enter into any sort of organization, but the nature of and frequent change in public administration makes its sudden appearance more likely than would ordinarily be true in private business.

Another major need for audits of governmental units arises out of the responsibility of such bodies to the public. This responsibility does not exist at all in most private enterprises and only to a limited extent in others. It is always present in the governmental bodies. This makes it necessary for the auditor to keep in mind continually the method of keeping the accounts and the type of reports to be prepared so that they will facilitate fulfilling this obligation.

Purpose of Governmental Audit. The purpose of the governmental audit grows out of the discussion in the preceding paragraphs and cannot be easily separated from its necessity. Aside from the usual verifications mentioned previously which show the need for the audit and therefore constitute one of its major purposes, there are other aims which must not be overlooked.

One of the major purposes of an audit should be the improvement of the accounting system. The need for proper accounting systems in such bodies should never be out of the auditor's mind. The need for improved accounting systems is certainly as great as and frequently greater in governmental bodies than in any other single type of organization. Until the comparatively recent past little has been done about this. More and more attention has been given to this subject so that the auditor will find it of increasing importance in his service to governmental bodies. Some states have, and others are contemplating, system legislation for local governmental bodies. It would be much better for the auditor to anticipate this as far as possible so that practice may have a beneficial effect upon the legis-

lation enacted than to have legislation imposed without proper understanding.

Another purpose of the audit is to determine if proper control is being exercised over both revenues and expenditures. Sometimes this control is but a matter of principle, while many times it is a legal requirement. In either case, it is important. The governmental body is receiving and expending the money of individuals for their benefit. This responsibility is great and the auditor must consider it as a major part of his audit to determine that it is not abused. It has been observed in previous chapters how important this control is from the accounting point of view. To ascertain that it has been carried through the accounting channels properly must be part of the audit.

Understanding of Legal Limitations. Much of the accounting procedure of governmental bodies is controlled by law. Often the audit itself is a legal requirement. In some instances the law imposing accounting requirements is not one which conforms to the best accounting principles in general or to those for governmental bodies in particular. This is unfortunate and every attempt should be made to have the law properly changed. In some cases the laws are not properly enforced. It goes without saying that the auditor should see that the law is followed. His recourse is not in disobedience to a poorly enforced law but is in his continual endeavor to have that law corrected.

Every auditor who engages in governmental assignments should familiarize himself with the major features of the laws affecting financial operations applying to the body under immediate consideration. Perhaps it is too much to expect him to know all the law effective, but he should make certain that he has competent advice in any doubtful case. The legal counsel of the various governmental bodies can be helpful. Many large accounting firms will have their own legal advisers from whom assistance can be obtained. In any event, the legality of general and detailed procedure must not be overlooked.

Who May Make the Audit. In general, governmental bodies may be audited by any one of three different agencies. An independent division of the same governmental body may perform the audit, another governmental body may render this service, or a private accountant may be employed.

The first type is represented in the federal government in the office of the comptroller general.[1] It is also found in many state governments and in a few large cities. When such a system is in use it is essential that the auditing division be entirely independent of the accounting division (and of the branch of government responsible for financial operations). The second type is most prevalent in the auditing or supervision of the audit by state governments for local governments.[2] The audit by an independent public accountant should be made wherever the others do not apply (and frequently is advantageous in supplementing other types of examinations).

To be certain that the audit is to be of the utmost value, certain essentials should be carefully observed. The independence of the auditor has been mentioned in connection with auditing divisions, but it is no less important in the other types of audit. Unless this absolute independence is present in all audits, the results cannot be expected to be the best. (It is most fully achieved through the use of an outside public accountant as independent auditor, since such a party stands in a distinct position of professional responsibility and public relationship.) An audit staff, of course, must be properly qualified. This normally would be assumed without stating, but special training in governmental auditing is necessary.

The auditor should do none of the bookkeeping. When he appears on the assignment the work should be done at least through the preparation of a trial balance. Some statements may be prepared. The books may not be closed, thus

[1] See Morey, "Federal Accounting and Reporting," *Journal of Accountancy,* March, 1940, and other references under federal accounting.

[2] For a discussion of this method, see Wylie Kirkpatrick, *State Supervision of Local Government,* Public Administration Service, 1941.

leaving the way open for possible adjustments which the auditor may find necessary. A final essential is that the work be done promptly. A post-audit that is unduly delayed becomes little more than a checking of figures.

What the Audit Includes. This subject is quite adequately discussed in other places.[1] It should be made certain that there is a complete understanding as to what the audit is to include on each assignment. There may be variations from the complete detailed audit to that type which is definitely limited in scope for some special purpose. Time spent in determining how much is to be done, and what the audit certificate is to state in regard to this, is time well spent which will avoid misunderstanding and dissatisfaction later.

Obtaining the Auditor. It is the practice in some governmental bodies to employ the auditor who may bid lowest on a closed competitive bid basis. Auditing is professional service. Two important factors enter into the selection of an auditor on any assignment, and they are just as effective on a governmental assignment as in any other. Competency of the auditor and the fee charged must both be considered. The ability of the auditor determines the value of the audit and the price must be gauged thereby. Some kinds of audits might be nearly worthless at any price.

When an auditor is to be engaged, certain qualifications should be looked for. A certified public accountant is always preferred. It should be determined whether the auditor has experience and knowledge of governmental accounting procedures. With all respect for general accounting practice, it must be recognized from the preceding chapters that the best knowledge of general accounting principles, if applied to governmental bodies, will not produce good results. This is just as true of the auditing as it is of the accounting. It is particularly true where advice on the system is involved, which has been pointed out as an important part of any governmental audit.

[1] National Committee on Municipal Accounting: *Municipal Audit Procedure,* 1940. Morey and Diehl, *Municipal Accounting,* 1942.

When the fee is being considered, the closed-bid system should be avoided. This does not mean that the fee should be accepted passively after the auditor has been selected. There are many auditors well able to perform governmental assignments. Two or three competent ones may be chosen and asked to give estimates on the work desired. A sane judgment, applied to both the qualifications of the auditor and his fee, will secure a satisfactory piece of work with helpful results for any governmental body.

Effect of Funds on Audit. The auditor must familiarize himself with the various funds that are being kept and with the purpose of each of those funds. As the audit progresses, it must be made certain that each entry has been made in the correct fund and that the entry is within the scope of that fund. If the fund is an unusual one, it may be necessary to refer to the law establishing it to determine the exact purpose. Checking the correctness of any entry implies the checking of the propriety of that entry in the fund in which it appears.

The auditor should recognize that each fund is a separate entity, that it must be complete within itself, containing all transactions relating to the purpose for which the fund was set up, and must be a balanced group of accounts for which a balance sheet may be prepared after all entries are complete without regard for other funds. There may be a relationship between funds arising out of various sorts of interfund transactions, but the necessity for completeness of each entry in each fund from the point of view of debit and credit is always present. The procedure might be compared with the audit of a series of small business units all under the same general control. This division into funds must be carried into all statements which are prepared. As mentioned earlier in this volume, it should be observed that interfund balances should be shown in all fund balance sheets and should never be offset or eliminated.

Effect of the Budget on the Audit. Close attention must be given to the fact that the budget not only should be prepared but also should become an integral part of the ledger

and related records. It is necessary to see not only that the budget has been properly prepared but also that it has been correctly entered in the funds affected. Further careful observation should be given to the limitations that the budget may place upon subsequent transactions. Ignoring these limitations may result in serious financial or legal difficulty. The auditor must recognize that at the end of the fiscal year unused appropriations usually lapse and that encumbrances must become expenditures within a limited time after the close of the fiscal year. If it has not been done by the accounting officer, the auditor should show by proper statements the comparison of budgetary and actual figures. This is quite important in the intelligent preparation of subsequent budgets.

Effect of the Absence of the Profit and Loss Element on the Audit. It might be assumed that the absence of profit and loss accounts in a governmental system would simply mean that such accounts are not present for audit. It means further, however, that most of the adjusting entries, which it often falls to the lot of the auditor to make, are unnecessary. Adjustments for depreciation, accruals, and deferred items, which are usually made in order to determine a correct profit and loss figure, need not be made. Reasons for this situation have been discussed in previous chapters and need not be repeated here. As a result of this peculiarity, profit and loss statements of the commercial type do not exist in most funds. Instead, so-called operating statements are found, which are often nothing more than statements of cash operations. It is not intended here to belittle the importance of such statements, but to emphasize the absence of the profit and loss approach. A few exceptions have been mentioned, such as in the accounting for utility funds. These exceptions and the reasons therefor must be understood and observed in the audit.

The audit of a utility fund is not discussed in detail here. Such an audit should be performed in exactly the same manner that it would be if the utility were privately owned. Proper audit procedures for usual cost systems where an

element of profit or loss is involved would be followed. However, in the audit of such a fund, the relationship with other funds should not be overlooked. Improper subsidization should be watched for and commented upon, as suggested in Chapter XIII.

Effect of Absence of Ownership Accounts on the Audit. The fact that ownership accounts are absent has a tendency to simplify the audit. Many of the complications arising in auditing systems having different capital and surplus accounts do not exist. In most cases a single balancing account, showing the surplus or deficit of the fund, is all that is found. The ownership account as such does not exist except as it may be assumed that the excess of resources over obligations, as represented by the Surplus account, shows ownership. The Surplus account does not appear under that title in all funds, but a comparable account is always present, for example, Bond Fund Balance account in the Bond Fund, and Assessment Fund Balance account in the special assessment funds. The discussion of similar accounts will be found in the chapters relating to the various other funds. It may be better said that no private ownership exists.

Audit of Items Represented by Accounts Peculiar to Governmental Accounting. In general there is no necessity of discussing the audit of detailed accounts which are more or less common in general systems. Such accounts will be mentioned only when some peculiarity seems to exist which may have some effect on the auditing. Otherwise accounts which are normally only found in governmental systems will be discussed. Aspects important in the audit of such accounts will be the content of the next several sections.

Cash. The usual methods of auditing cash apply in governmental audits. It is mentioned here not only because it is divided between the different funds but also because in some cases it is divided within a fund. This division takes place normally in assessment funds and in trust and agency funds. In the Special Assessment Fund it is exceedingly

important to see that cash for construction and cash for bonds and interest are properly separated. The records should be kept so that this separation is obvious. Each individual transaction relating to cash in such funds must be scrutinized to ascertain if both cash received and cash disbursed are entered in the proper account. It is proper to use excess cash for construction in meeting bond and interest obligations, but it is absolutely improper for the reverse procedure to take place.

In trust and agency funds, expendable and non-expendable cash must be kept separated. It is not proper for cash in either group to be used for purposes of the other. It should be the duty of the auditor to see that such segregation is recognized and that the amounts have been entered in the proper accounts.

Careful check should be made with various depositories which may be used by the governmental body. Banks and treasury departments may be involved. Absolute reconciliation should be made with these depositories. Officers of the governmental unit who may be charged with the collection of cash should make daily deposits of their collections. The auditor should ascertain that such officers have not been making unauthorized expenditures from these cash collections. If their duties make small cash disbursements necessary, they should be provided with a petty cash fund which must be audited in the usual manner.

Taxes Receivable. In the audit of taxes receivable, the primary source of authority is the tax roll which has been approved by the proper body, depending upon the government being audited and the laws that may apply. This tax roll should be used in determining whether the total amount has been correctly entered in the controlling account for each fund, and if the proper amount has been entered for the individual subsidiary ledger accounts. The tax roll frequently will show the amount based on a single tax rate, which is a combination of the tax rates for the various funds. It must be made certain that this has been divided correctly for entry in the ledgers.

Duplicate tax receipts should be checked to see that each fund's receivable has been credited properly as well as each individual account in the subsidiary ledgers. Since a taxpayer usually will pay a single amount which is to be divided among several funds, the relationship of the tax rates of the funds involved must be an important part of this phase of the audit. Taxes receivable for different tax periods should not be combined. The delinquent amounts for each year can be determined easily and the control proved both with the current receivable accounts and with those which may be delinquent. It is obvious that the subsidiary ledgers for the different tax years must also be kept separated.

Assessments Receivable should be checked back to the assessment roll which has been properly approved. The total should appear in the General Ledger while the detail will be entered in the subsidiary ledger. Duplicate receipts should be checked for proper entry and for calculation of interest on the instalment payments. It should be observed that proper penalties have been added for delinquent payments. Delinquent lists or ledgers should be checked back against the subsidiary ledger. The most careful attention should be given to the fact that the receipts of one assessment are for the use of that assessment only in the paying of bonds and interest issued for it. Great care should be taken to see that when assessments are paid in advance, a corresponding amount of bonds is called. Failure to do this will result in interest losses which will cause deficits in the funds. Wherever special laws govern the handling of special assessments, such as the complete separation of instalments within each assessment, further care must be exercised in their audit.

Whenever another governmental body is making tax collections for the one being audited, the auditor should make careful check with the collecting officers of that other body. Two facts should be important in this check: first, what are the amounts remitted and do they agree with the records being audited? secondly, are there any comparatively

large amounts which have not been remitted? If it is possible, a check should be made to determine if the governmental body being audited is receiving its proper proportion of the total taxes received by the collecting body.

Reserve for Uncollectible Taxes. This account is similar to the usual reserve for uncollectible accounts. The major problem that it brings to the audit relates to its adequacy. Observation of past experience along with future expectation should assist the auditor in his judgment on this point.

Due from Other Funds. The title of this account is self-explanatory. The auditor should make certain that the balance does represent a current receivable from some other fund. Every entry made in the account should result from temporary transfers. Normally they will involve temporary loans or the supplying of services or stores to other funds. It should be possible to include them among the current resources of the fund in which they appear. If more permanent advances take place, they should be entered in accounts with titles that would indicate this degree of permanency. Advances for working capital represent this latter class.

The auditor should check further to see if a proper payable account exists in some other fund to show the other side of the transfer. He should make certain that no interfund transfers have been made without entry. The independence of each fund must never be ignored in such transfers.

It is also important in checking interfund transfers to be certain that such a transfer is within the scope of transactions proper for that fund. For example, some trust funds might not be able to loan to other funds on account of limitations placed upon them. Improper manipulation can easily be present in these cases and should always be carefully avoided.

Due to Other Funds. This account is the obligation arising out of such transactions as those discussed in the preceding section. The same sort of checks are necessary so

that it seems further emphasis is unnecessary. They should always represent current obligations. More permanent items should be shown in such accounts as Advances from Other Funds for Working Capital. As the title indicates, such an account practically assumes the proportions of a permanent capital account.

Service Department. This is discussed here as an account title with the implication of the necessary audit in the Service Department Ledger. It must be recognized that this account appears in the Working Capital Fund, its balance representing the net result of all of the service department's operations. The audit of the service department accounts represents a cost system audit, more or less involved, depending on the complications in the system itself. A discussion of such an audit would be inappropriate here. Only the cost accounts would be kept in this service department ledger in which would appear an account called General Ledger, which would be used to keep the Service Department Ledger in balance. After a complete audit has been made of the cost operations, during which the entries in the General Ledger account would be verified, the relationship with the Working Capital Fund in the General Ledger should be checked. The Service Department account in the Working Capital Fund should be reciprocal with the General Ledger account in the Service Department Ledger. The auditor should see that these balances are reciprocal and that proper provision has been made for entries not complete in either account.

Inventories. The audit of inventories of stores and supplies is more important, from a different point of view, in a governmental body than it is in a private institution. The value of such inventories is not of major importance if it has been entered properly at the time of purchase. This is true because the inventories are not used as a basis for credit as they may be in private institutions. Further, since profit and loss is not being calculated, the value is secondary in importance. At the end of a period when the audit is being made, the physical presence of the inventory should

be verified. Such inventories lend themselves easily to dissipation. Quantity receipts, issuances, and balances are of prime importance. Original invoices, receiving clerk's records, and stores records should be compared to verify the receipts. Original requisitions and requisition records will aid in proving the issuances. Good judgment must be exercised in verifying the physical inventory with that shown as the balance on the books. The control account in the General Ledger must be verified with the stores ledger.

Estimated Revenues. This account as it appears in each fund should be checked back to the budget to see if the original entry has been properly made. The records of the council should be checked to determine if any additional revenues have been estimated and approved for entry. The account controls the entries made in the subsidiary Revenue Ledger in so far as the original estimate and corrections thereof are concerned. The two should be checked for agreement.

There are other accounts of a somewhat similar nature which appear in other funds. The Assessable Authorization account in the Special Assessment Fund has as its authority the court order which has authorized the improvement. This source should be checked to determine if the amount has been correctly entered.

The Sinking Fund Requirements account in the Sinking Fund should be carefully checked to determine if the proper amount is being accumulated for reducing the bond obligation properly. This may necessitate a detailed study of all outstanding issues and their due dates. In order to be certain that the governmental body concerned will not meet difficult financial problems when the bonds fall due, the auditor must give this account careful attention.

Revenues. The Revenues account in any fund controls the entries in the subsidiary Revenue Ledger, representing the actual revenues of the period. This control should be checked by the auditor. Two other important questions should be answered by adequate checking procedure. First, are the items so entered true revenues and, secondly, do

they belong to the fund and subsidiary ledger account in which they are entered? If non-revenue items are allowed among the revenues, distortion may result which will cause incorrect statements of revenues and which may result in improper budgets for subsequent periods. The original sources must be carefully checked to be certain that the revenue is properly classified as to fund and account. Errors of the second type are just as serious as the first. Care should be taken to determine that all miscellaneous revenues are accounted for properly. If the accounting officer has not done so, the auditor should prepare adequate comparison of the estimated and actual revenues for each fund.

Appropriations. The first entry in the Appropriations account is from the budget. This should be checked for total in the controlling account in the General Ledger for each fund and for detail in the credit column of the subsidiary Appropriations Ledger. If any additional appropriations have been entered in the accounts, the journal or minutes should be searched to determine if such an increase has been authorized. The appropriation ordinance should be checked against the budget to see if they agree. Any differences which may appear should be commented upon.

Expenditures. This account shows the actual expenditure of the appropriations made. It should be checked back to the original invoices and the approved vouchers. It should be ascertained if proper authority has been given for each expenditure, if it has been charged to the proper fund, and if it has been entered in the proper account in the subsidiary Appropriation Ledger. The control of expenditures is one of the most important parts of any governmental accounting system and becomes a vital part of any adequate audit of such a body. The illegality of an excess of expenditures over appropriations should never be overlooked.

Appropriation Encumbrances. When the expenditures have been checked carefully, the audit of encumbrances involves close attention to the unliquidated items at the end of the period. Those that have become actual expenditures during the period have been verified previously. For any

balance which remains at the end of the period a check similar to that discussed in the preceding section should be made. It should be ascertained if the encumbrance falls within a specific appropriation, if it has been entered in the proper fund and in the proper subsidiary ledger. It should also be determined if expenditures made for encumbrances carried over from the previous period were made within the allotted time for such expenditures, and, if not, that the encumbrances were closed out and the appropriations lapsed. For any unliquidated encumbrances at the end of the current period which may be carried over into the following period it should be made certain that proper amounts of appropriations have been left open to cover them as they become expenditures.

Reserve for Encumbrances. This is the contra account for all encumbrance entries. In the audit it should be made certain that it has a credit balance equal to the debit balance in the Appropriation Encumbrance account.

Surplus Receipts. The most important proof in the audit of this account is that all items are truly of this nature if they are entered in the account or similar accounts. Of course, no revenue receipts should be entered here. It should be carefully observed that the account is not used as a catch-all for receipts which should be credited in some other place.

Fund Balance Accounts. These accounts bear different titles depending upon the fund in which they occur. It should be determined if they actually represent what they are supposed to, merely the excess of the resources over the obligations. These accounts, unless there is good reason therefor, should not be allowed to show large balances without proper comment. In some funds a balance must accumulate, as in a sinking fund, but in most cases this is not true.

The Audit Report. The publications of the National Committee on municipal accounting contain a complete statement of the contents of the audit report for municipalities. This same outline would apply almost equally

well to other governmental bodies. In general the report consists of three major sections, the letter of transmittal, the comments, and the statements.

The letter of transmittal should indicate the scope of the audit, the general results, and the certificate. If the comments are few in number, they may be included in the letter of transmittal, but, if there are several or if they involve much discussion, they are more appropriately placed in a separate section. An important part of these comments should always be the recommendations for improvement of the system. It should be emphasized here that the governmental auditor must always be alert to this necessity.

Forms of financial statements were discussed in Chapter XIX. The auditor must judge which ones should be included in his report. Both financial and special or statistical statements may be properly included. Clarity in the report is essential and special statements usually will help. The other extreme should be avoided. Mere bulk of statements is no asset to the report. The exact content of the audit report depends somewhat on the circumstances in each case. Where a financial report is prepared by the accounting officer of the governmental body, which should be done in every instance possible and is frequently required by law, that report should be the primary one, and the audit should be carried out as a verification of that report and of the records on which it is based. The audit report should be limited to main exhibits, which, if the report of the accounting officer is in proper form, should be identical with the same statements in the latter report. This will also make it possible for the certificate of the auditor to be included in the published report of the accounting officer, without the publication of the complete audit report separately.

If the audit report is depended on as the principal financial report, it must be more complete and comprehensive and, in this instance, may be published in full. As a rule, while the audit report should be available for public examination and its findings should be published, the full report

is primarily a concern of the executive and legislative divisions. A committee of the legislative body should receive and consider each audit report. If any malfeasance is indicated by the report, this committee should take the responsibility for further action. Comments made by the auditor should be carefully studied. His suggestions should be followed through and any questionable points should be discussed with him. Preceding reports should be observed after each audit, in conjunction with the current report, to determine if improvement is present or if new problems have arisen.

Responsibility. The auditor must recognize the responsibility to three different groups; the governmental officials, the legislative or other controlling body, and the public. During the audit, and especially in preparing the report, none of these groups should be overlooked. Above all, the auditor should remember that the officials and the legislative body are acting for the public and that the public is entitled to a complete and fair report as to how its affairs are being managed.

PROBLEMS

PROBLEM 1

(Chapter III)

Classify the following funds as to (*a*) *ownership*, (*b*) *expendability*, (*c*) *source of income*.

1. Arising from general tax levy; to be used for general current expense.
2. Arising from special tax levy; to be used for designated current expense.
3. Arising from sale of bonds; to be used for designated special purpose.
4. Arising from sale of property; to be used for general purposes.
5. Arising from special assessments; to be used for local improvements.
6. Arising from grants from superior government; to be used for general current expenses.
7. Arising from bequest or donation; to be used for general current expenses.
8. Arising from bequest or donation; to be used for benefit of specified persons.
9. Arising from transfer from other funds; to be used for specified purposes.
10. Arising from deposits; to be either returned or forfeited.
11. Arising from transfer from other funds; to be used as working capital.
12. Arising by grant from superior government; to be used as endowment.
13. Arising from bequest or donation; to be used as endowment.
14. Arising from income on endowment; to be used for general purposes.
15. Arising from income on endowment; to be used for benefit of specified persons.
16. Arising from general taxes; collected for other governments.
17. Arising from miscellaneous sources; to be held for benefit of or distribution to private persons.
18. Arising from miscellaneous revenues; to be used for general purposes.

PROBLEM 2

(Chapter IV)

Total Amount of Appropriations Recommended for 1950	$ 3 283 672
Estimated Surplus from 1949	278 387
Estimated Miscellaneous Revenue for 1950	402 000
Estimated Surplus Receipts for 1950	300 000
Assessed Valuation of Property for 1950	174 281 580
Estimated Reserve Necessary for Loss in Collection of 1950 Taxes	274 493
Estimated Margin for Contingencies Needed for 1950	167 156

Required:

1. The necessary tax rate for 1950.
2. A budget summary and the schedule of estimated revenues and surplus receipts for 1950.

PROBLEM 3

(Chapter IV)

Following are the items of estimated income and proposed expenditures of an educational institution.

ESTIMATED INCOME:

Federal Appropriation	$ 441 770
Sales of Medical Hospital	43 520
Endowment Income Not Restricted	449 550
Endowment Income for Student Aid	7 000
Endowment Income Restricted to Teaching Purposes	38 199
Refunds of Student Fees (Deduction)	30 000
Sales of Agricultural Products	165 429
Other Sales	42 213
State Appropriations	2 915 000
City Appropriations	1 000 000
Matured Annuity Gift	4 000
Gifts for Research	95 899
Student Fees	975 000
Rentals from Residence Halls	93 000
Gifts for Student Aid	7 900
Income of Bookstores	37 000

Classify under the following headings: Educational and General, Sales and Services, Auxiliary Enterprises and Activities, and Other Non-Educational Income. Educational and General includes Student Fees, Endowment Investments, Governmental Appropriations and Tax Levies, Gifts and Grants, Sales and Services of Educational Departments.

PROPOSED EXPENDITURES:	*Salaries and Wages*	*Expenses and Equipment*
Dairy Creamery	$ 16 953	$ 54 047
Pharmacy	81 364	9 900
Dentistry	99 161	18 550
Medicine	350 864	75 770
Board of Regents	1 744	7 975
President's Office	24 000	3 000
Arts and Sciences	1 692 536	74 560
Engineering	560 450	26 660
Physical Plant Operation	455 000	266 000
Organized Research:		
Graduate School	25 000	25 000
Engineering Experiment Station	25 000	75 000
Agricultural Experiment Station	100 000	50 000
Membership in Organizations		300
Commencement		1 000
Dean of Men	11 000	1 505
Dean of Women	8 800	1 260
Home Economics Cafeteria	2 200	2 860
Agriculture	703 879	78 675
Physical Education	110 444	9 263
Law	435 640	41 224
Military	7 360	5 310
Business Office	36 680	15 645
Graduate School	10 240	2 240
Libraries	154 320	310 002
Residence Halls	8 220	83 780
University Press	10 501	12 460
Incidentals and Emergencies		2 000
Bookstores	1 800	34 575
Student Aid	14 900	

Classify under the following headings: Educational and General, Organized Activities Relating to Instructional Departments, Auxiliary Enterprises, and Other Non-Educational Expense. Educational and General includes General Administration and Expense, Instruction, Research, Libraries, and Operation of Physical Plant.

Set up, as far as possible, summary and detailed schedules of estimated income and proposed expenditures for the annual budget of the institution.

PROBLEM 4

(Chapter V)

The total appropriation for the General Fund for a certain fiscal year was $376,820. For purposes of control this amount was budgeted by quarters as follows: first quarter, 30%; second quarter, 25%; third quarter, 20%; and fourth quarter, 25%.

(*a*) Show the original appropriation entry.

(*b*) Show the entry at the beginning of each quarter for the allotment.

(*c*) Illustrate how these accounts would appear in a balance sheet prepared at the end of the first quarter if the expenditures for that quarter had been $113,000.

PROBLEM 5

(Chapter V)

A summary of figures from a municipal budget:

Estimated Revenues:		
General Taxes	$228 284	g
Special Taxes	102 100	g
Licenses	21 609	g
Fines	2 812	g
Departmental Earnings	27 744	g
Water Department	104 363	s
Pension Fund Assessments	5 400	s
Library Tax	20 000	s
Appropriations:		
General Government	$ 36 881	g
Public Health, Safety, and Sanitation	137 647	g
Public Works and Property	71 871	g
Parks and Playgrounds	26 132	g
Library	17 803	s
Interest and Redemption of Debt	32 120	g
Public Improvements	35 725	g
Water Department	111 180	s; g (*)
Pensions	4 634	s

g General Fund.
s Special funds.
* $10,000 of this appropriation is from General Fund.

1. Make a suitable form of budget exhibit of these figures.
2. Make journal and ledger entries to set up the budget on both general and subsidiary ledgers.
3. Prepare fund balance sheets after entering budget.

Note. See also Problems 17, 24, and 42.

PROBLEM 6

(Chapter V)

Attached herewith are two schedules representing a summary of a *State Budget* for a fiscal period. Schedule I is a statement of the Estimated Revenues of the various funds, including balances July 1, available for appropriation. Schedule II is a statement of Appropriations out of the various funds for that period.

SCHEDULE I

ESTIMATED REVENUE

General Revenue Fund		
Balance July 1 (Cash)	$ 6 000 000	
Departmental Earnings		
Secretary of State	7 141 000	
Auditor of Public Accounts	435 540	
State Treasurer	1 582 604	
Agriculture	944 900	
Public Welfare	418 541	
Trade and Commerce	8 023 762	
Registration and Education	376 230	
Miscellaneous	142 310	
U. S. Government for		
University	100 000	
Soldiers' Home	200 000	
General Revenue Fund		
Special Railroad Tax	$ 6 500 000	
Inheritance Tax	6 500 000	
General Property Tax	20 000 000	$58 364 887
University Fund		
Balance July 1 (Cash)	$ 200 000	
General Property Tax	5 000 500	5 200 500
School Fund		
General Property Tax		16 001 500
Waterway Bond Fund		
General Property Tax		2 200 500
Soldiers' Compensation Bond Fund		
General Property Tax		3 900 000
Road Fund		
Balance July 1 (Cash)	$ 7 500 000	
Automobile Licenses	18 500 000	
Public Works and Buildings Dept.	300 000	
U. S. Government Aid	10 000 000	36 300 000

SCHEDULE II

APPROPRIATIONS

General Fund	$56 592 981
University Fund	5 200 500
School Fund	16 001 500
Waterway Bond Fund	2 200 500
Soldiers' Compensation Bond Fund	3 900 000
Road Fund	36 025 633

1. Prepare a budget summary schedule.
2. Open proper general ledger accounts to set up all balances as of July 1.
3. Set up all general and revenue ledger accounts required by the budget, and enter the budget therein.
4. Prepare balance sheets of the various funds after entering the budget.

PROBLEM 7

(Chapter V)

BUDGET SUMMARY BY FUNDS

	GENERAL	SCHOOL	WATER	MARKET	CEMETERY
APPROPRIATIONS:					
General Municipal Expense	$9 249 404	$7 800 000	$736 508	$40 000	$135 000
Debt Service	3 546 674	2 350 466	763 492		
Total Appropriations	$12 796 078	$10 150 466	$1 500 000	$40 000	$135 000
Estimated Surplus				5 000	
GRAND TOTAL	$12 796 078	$10 150 466	$1 500 000	$45 000	$135 000
MEANS OF FINANCING:					
Tax Revenues:					
Limited	$5 903 291	$4 529 800			
Unlimited	3 546 674	2 350 466			
Utility Revenues			$1 500 000	$45 000	
Miscellaneous Revenues	1 996 750	2 210 000			$135 000
Proceeds Temporary Financing	1 349 363	1 060 200			
GRAND TOTAL	$12 796 078	$10 150 466	$1 500 000	$45 000	$135 000

Set up the above budget on the General Ledger and prepare fund balance sheets.

PROBLEM 8

(Chapter V)

UNIVERSITY BUDGET SUMMARY

Estimated Revenue

General Fund:	
Endowment Income	$ 256 591
United States	205 061
State	5 002 422
Student Fees	1 097 850
Departmental Earnings	1 102 470
Gifts	83 645
Miscellaneous	82 736
Restricted Current Funds:	
Endowment Income	44 213
Student Fees	273 100
Gifts	12 885
United States	43 250
Departmental Earnings	96 700
Miscellaneous	7 400
Student Aid Funds:	
Endowment Income	5 000
Gifts	31 913

Appropriations

General Fund	$7 811 218
Restricted Current Funds	477 548
Student Aid Funds	36 913

Make journal entries for above, post to general and revenue ledgers, and prepare fund balance sheets.

PROBLEM 9

(Chapter V)

The following balances appear in the accounts of a certain fund.

Accounts Payable	$ 4 961
Accounts Receivable	1 681
Appropriation Balances (Unencumbered)	126 784
Cash	16 841
Due from Other Funds	4 820
Due to Other Funds	1 267
Estimated Revenues (Unrealized)	94 622

Reserve for Encumbrances	$12 820
Taxes Receivable	61 846
Temporary Notes Payable	27 000

Prepare a balance sheet of the fund in proper form, including the correct amount of Unappropriated Surplus.

PROBLEM 10

(Chapter V)

The balances in the accounts of a certain fund at a given date were as follows:

Accounts Receivable	$ 16 724
Appropriation Balances (Unencumbered)	942 431
Cash	343 058
Estimated Revenues from Endowment Fund	16 225
Estimated Revenues from Fees and Sales	154 602
Estimated Revenues from State Appropriations	1 393 019
Estimated Revenues from United States Appropriations	127 609
Notes Receivable	5 000
Petty Cash Advances	12 950
Reserve for Encumbrances	1 287 448
Reserve for Working Capital	100 000
Stores	358 888

Prepare a balance sheet of the fund in proper form. (Balances of estimated revenues accounts are after deducting revenues realized to date.)

PROBLEM 11

(Chapter V)

The cash on hand belonging to the fund amounts to $2,872.

Taxes levied but uncollected amount to $192,537, against which a reserve of $3,835 is being carried.

Other accounts receivable amount to $3,256.

Temporary notes (payable) outstanding amount to $191,750.

Current accounts payable amount to $8,691.

There is due the Sinking Fund from the Corporate Fund the sum of $15,494.

The balance of estimated revenues not yet realized amounts to $261,000. Appropriation balances, not encumbered, amount to $244,600.

From the foregoing facts concerning the Corporate Fund of a certain city, prepare a balance sheet of that fund.

PROBLEM 12

(Chapter V)

The following balances appear in the accounts of a certain fund at the end of a year after closing.

Accounts Payable	$ 612 640
Accounts Receivable	22 281
City Treasurer's Cash Balance	102 915
Reserve for Encumbrances	7 079 366
Materials and Supplies	409 599
Petty Cash	11 345
Current Tax Levy	41 079 334
Reserve for Loss and Cost on Taxes	3 697 140
Temporary Loans Payable	27 100 000

Arrange the above in balance sheet form, showing the surplus or deficit of the fund.

PROBLEM 13

(Chapter V)

The following is a list of ledger accounts of the Corporate Fund of a certain city, as of June 30, 1949.

Accounts Payable	$ 762
Appropriations	51 625
Cash	1 368
Due to Other Funds	5 886
Estimated Revenue (Taxes)	30 175
Estimated Revenue (Miscellaneous)	16 125
Expenditures	29 708
Investments	1 895
Loans Payable	11 820
Petty Cash	25
Revenue Received (Taxes)	30 175
Revenue Received (Miscellaneous)	7 008
Reserve for Uncollectible Taxes Prior to 1949	32 044
Reserve for Uncollectible Taxes for 1949	5 325
Tax Warrants Payable (1949)	20 500
Tax Warrants Payable (Prior to 1949)	33 162
Taxes Receivable (Prior to 1949)	92 695
Taxes Receivable (1949)	35 500
Unappropriated Surplus	*

* To be determined.

Prepare a balance sheet in proper form before closing, showing all of the accounts that appear above.

PROBLEM 14

(Chapter VI)

Transactions of certain funds:

1. Balances, beginning of year:		
State Fund		
Cash	$ 16 285	
Taxes Receivable	18 926	(Reserve $4 234)
Road Fund		
Cash	176 800	
Accounts Payable	18 400	
2. Estimated Revenues:		
State Fund		
Taxes	400 000	
Fees	100 000	
Miscellaneous	20 000	
Road Fund		
Licenses	200 000	
U. S. Government	200 000	
3. Appropriations		
State Fund	540 000	
Road Fund	560 000	
4. State Fund Tax Levy	420 000	(Reserve 4%)
5. Receipts		
Taxes, previous year	12 620	
Taxes, current year	140 500	
Fees	24 000	
Licenses	212 000	

Required:

1. General Ledger.
2. Revenue Ledger.
3. Fund Balance Sheets.
4. Statement of Realization of Revenue.

PROBLEM 15

(Chapter VI)

The following material relates to State Budget Problem 11.

The assessed valuation of property in the State was $4,080,000,000. The tax rate for that year was $0.50 per $100 valuation distributed as follows:

General Revenue Fund	9⅔¢
State School Fund	21¢
University Fund	6⅔¢
Waterway Bond	2⅔¢
Soldiers' Compensation Bond Fund	10¢

The average loss in tax collections for three years preceding was 5%. The receipts for three months ending October 1 were as follows:

Secretary of State	$ 762 000
Auditor of Public Accounts	41 300
State Treasurer	215 800
Agriculture	186 700
Public Welfare	63 400
Trade and Commerce	1 239 000
Registration and Education	31 800
Inheritance Tax	1 728 000
Automobile Licenses	621 000
U. S. Government Aid for Roads	3 227 000
Taxes (to be distributed over the various funds in accordance with the tax rate)	16 422 000

1. Make journal entries to set up the tax levy for state purposes on the accounts, making due allowance for probable losses based on past experience.
2. Journalize the above receipts.
3. Prepare a Revenue Statement as of October 1.

PROBLEM 16

(Chapter VI)

You find that a certain city has listed the following items as revenues in one of its funds. In preparing the annual statements which of these items should be included properly in a revenues statement? (This city enters its taxes and fees on an accrual basis, and other items on a cash basis.)

1. Collection of police fines.
2. Receipt of interest on bank deposits.
3. Levy of a special tax.
4. Receipt of refund of an expenditure made this period.
5. Credit given at bank for proceeds of sale of tax warrants.
6. Collection of part of general tax levy.
7. Local bus line franchise collected.
8. Certain fees were assessed and charged to accounts receivable.
9. Collection of old taxes. (These were still on the books as Taxes Receivable.)

10. A refund received on an expenditure which had been made in a previous period.

11. Some old equipment was sold and the proceeds deposited for this fund.

12. Some old taxes which had been written off as uncollectible were collected.

13. Collection of accounts receivable for fees.

14. Received a loan from another fund.

15. Collected taxes for the county.

PROBLEM 17

(Chapter VII)

The following transactions relate to Municipal Budget Problem 5.

I. General tax levy, $231,826; estimated net collectible, $228,284.
Special taxes levied to date, $30,000; considered collectible.
Water accounts rendered, $8,762.
Department accounts reported for collection, $4,541.
Library tax levied, $21,600; estimated 3% loss.

II. Gifts to Library for current use		$ 350 cash
Receipts from Licenses		6 200
Receipts from Fines		1 245
Receipts from Water accounts		6 875
Receipts from Department accounts		1 871
III. Funds borrowed on temporary notes:		
General Fund	$50 000	
Library Fund	5 000	
IV. General Taxes collected	$29 687	
Special Taxes collected	4 800	

1. Journalize above in proper form.
2. Prepare revenue statement.

PROBLEM 18

(Chapter VII)

GENERAL LEDGER

FUND ACCOUNT TOTALS

	Debits	Credits
Cash	$ 78 900	$10 000
Estimated Revenues	165 000	
Loan to Fund B	10 000	
Property Taxes Receivable	104 000	24 000
Reserve for Uncollectible Taxes		4 500
Revenues		149 400
Sale of Land		5 000
Unappropriated Surplus		165 000
	$357 900	$357 900

REVENUE LEDGER

FUND ACCOUNT TOTALS

	Debits	Credits
Property Tax	$100 000	$99 500
Inheritance Tax	30 000	18 700
Examination Fees	10 000	11 200
Auto Licenses	25 000	19 000
Special Fees		1 000
	$165 000	$149 400

The above stated totals represent the total transactions in each account for the fiscal period to date. There were no balances at the beginning of the period.

From the above figures prepare:

(*a*) Statement of revenue.
(*b*) Statement of receipts.
(*c*) Fund balance sheet.

PROBLEM 19

(Chapter VII)

Budget Revenue Estimates of General Fund

Taxes	$160 000
Licenses	40 000
Fines	16 000
Fees	9 000

Tax Levy

$7.00 per 100 on valuation of $2,484,200, 3% reserve necessary.

Cash Receipts for Year

Taxes:		
Delinquent	$ 2 126	(previously written off)
Current	169 841	
Licenses	41 810	
Fines	7 842	
Fees	11 420	
Temporary Loans	25 000	
Refunds	262	
Sale of Old Equipment	629	
Interest on Bank Balance	439	
Current taxes written off	2 121	

1. Set up general and subsidiary ledger accounts for above.
2. Make a statement of revenue for the year.
3. Make a statement of receipts.

PROBLEM 20

(Chapter VII)

The following is a list of receipts of the funds named for a given period.

General Fund

Current Taxes	$62 184
Building Permits	2 840
Tax Anticipation Notes	40 000
Accrued Interest on same, paid by purchasers	486
Interest and Penalties on taxes not paid when due	694
Sale of old equipment	1 220
Interest on bank balance	846
Refunds on payments made in error	187
Reimbursements from property owners for connections to city water mains charged to them at cost	287
Taxes collected for the state	16 840
Advance from School Fund	5 000

School Fund

Current Taxes	$32 840
Tuition Fees from non-residents	8 620
Sale of articles made in the Manual Training Department	2 110
Federal Aid	4 000
Sale of temporary investments	6 000
Interest on Investments	320
Gift for purchase of library books	1 000
Laboratory Deposits	1 820

Prepare a statement of receipts.

PROBLEM 21

(Chapter VII)

From the following list of cash receipts of a certain city make a statement of receipts in proper form, showing the funds necessary.

Departmental Earnings	$ 529 594
Fines and Forfeits	13 957
Grants and Gifts for Current Expense	109 931
Interest	
On Sinking Funds	208 569
On Trust Funds	33 689
On General Funds	77 683
Licenses and Permits	30 069
Bonds (general obligation)	946 000
Bonds (special assessment)	555 000
Premiums on Special Assessment Bonds	6 999
Privileges	400
Refunds of General Fund Payments	173 719
Special Assessments	161 530
Taxes, Current Year	7 031 050
Taxes and Licenses for State	814 792
Taxes for County	312 210
Temporary Loans for General Fund	7 525 000
Transfers to Sinking Fund from General Fund	231 131

PROBLEM 22

(Chapter VII)

RECEIPTS AND DISBURSEMENTS, CITY OF X

Cash Balances of Funds, beginning of year:	
General	$ 955
Water	4 908
Special Assessment	686

Sanitarium	$ 10 387
Park	1 231
Library	7 290
Receipts for year:	
General Fund	
Taxes Current year	312 668 *
Licenses	3 951
Permits	6 080
Police Court Fines	21 240
Departments	851
Insurance Tax	3 133
Dog Tax	666
Rentals	672
Tax Sales (Delinquent Taxes)	3 827
Interest on cash balances in bank	366
Accrued interest received on Tax Anticipation Notes issued	664
Transfer from Water Fund	3 010
Refunds	293
Miscellaneous revenue receipts	381
Tax Anticipation Notes sold	229 000
Water Fund	
Rents	100 627
Warrants sold	3 500
Special Assessment Fund	310 958
Sanitarium Fund	
Taxes	8 603 (*a*)
Other revenues	2 201
Park Fund	
Taxes	24 582 (*b*)
Other revenues	326
Library Fund	
Taxes	18 436 (*c*)
Other revenues	823
Disbursements for year:	
General Fund	586 221 †
Water (including transfer to General)	96 601
Special Assessment Fund	291 798
Sanitarium Fund	11 588
Park Fund	19 144
Library Fund	17 493
Police fines not turned in at beginning of year	7 924
Police fines not turned in at end of year	8 385
Taxes of this year outstanding at end of year, General Fund	6 323

* Includes a, b, and c, later transferred.

† Includes $33 tax refunds, and transfers *a*, *b*, and *c*, above noted.

1. Make a Statement of Receipts for the year.
2. Make a schedule of the revenue of the year.

PROBLEM 23

(Chapter VII)

The following is a statement of receipts presented to you by a municipality. It has been prepared for the General Fund only.

STATEMENT OF RECEIPTS

Source	*Amount*
I. Revenue Receipts:	
1. Taxes for general funds	$6 000
2. Taxes for other funds	3 000
3. Taxes for state	4 000
4. Fines	500
5. Licenses	1 000
6. Refund of an expenditure	100
7. Old accounts collected	300
8. Franchises	500
9. State fishing licenses	200
10. Motor fuel tax from state	2 000
	$17 600
II. Non-Revenue Receipts:	
1. Loan from bank	$2 000
2. Loan from another fund	1 000
3. Old property sold	300
4. Gift for general use	500
5. Receipt of repayment of loan to another fund	800
	$4 600
Grand total	$22 200

Examine this statement, determine whether the classification of items is correct, and, if not, prepare a corrected statement of receipts.

PROBLEM 24

(Chapter VIII)

The following transactions relate to Municipal Budget Problems 5 and 17.

I. Orders and contracts placed, estimated:	
General fund appropriations	$61 890
Library fund appropriations	2 600
Water fund appropriations	7 967

II. Vouchers audited:

General fund appropriations:

Against encumbrances, estimated $14,640; actual $14,872; other vouchers, actual $8,465.

Water fund appropriations, payrolls	$5 870
Pension fund appropriations	200
Repayment of general fund loans	3 000

Journalize above in proper form. Prepare fund balance sheets and a summary statement of appropriations.

PROBLEM 25

(Chapter VIII)

MUNICIPAL BUDGET SUMMARY

I. Appropriations from the Corporate Purpose Fund:		
Department of General Government	$16 650	
Municipal Buildings and Grounds	7 380	
Department of Law	6 850	
Police Department	95 120	
Fire Department	81 439	
Department of Health	14 850	
Board of Local Improvements	29 500	
Department of Public Works	14 600	
Garage Department	25 800	
Building Department	12 650	
Department of Forestry	3 500	
Department of Streets	68 000	
Department of Street Lighting	32 000	
Interest	7 500	
Contingent	11 000	
Total		$426 839
II. Appropriations from Special Tax Fund for Payment of Bonds and Interest on Bonded Indebtedness:		
For Bonds	$17 037	
Interest and Principal on Bonded Indebtedness	30 855	
Total		$47 892
III. Appropriations from the Library Fund:		
Operation	$27 300	
Books	10 000	
Total		$37 300
IV. Appropriations from the Public Benefit Tax Fund		36 000

V. Appropriations from the Public Playground Tax Fund:	
Department of Public Works, for Parks	$25 000
VI. Appropriations from the Garbage Tax Fund:	
Garbage Department	27 950
VII. Appropriations from the Street and Bridge Fund:	
Department of Streets	41 500

(Above appropriations exactly cover estimated revenues of the respective funds.)

The appropriation transactions for the month of May are:

1. Orders and contracts placed:		
Corporate Fund		$66 054
Library Fund		4 320
Public Playground Tax Fund		12 000
Street and Bridge Fund		3 900
2. The following vouchers were approved on account of the above-mentioned orders and contracts:		
Corporate Fund		25 063
Estimated	$24 932	
Library Fund		2 100
Estimated	2 000	
Public Playground Tax Fund		4 000
Estimated	4 000	
3. The following vouchers not related to orders or contracts were passed:		
Corporate Fund		14 810
Bond and Interest Fund		6 800
Public Benefit Tax Fund		3 000
Public Playground Tax Fund		1 800
Garbage Tax Fund		2 720
Street and Bridge Fund		3 410

1. Set up the above budget on the General Ledger, May 1.
2. Enter the above transactions in the General Ledger, and prepare fund balance sheets as of May 31.

PROBLEM 26

(Chapter VIII)

(1) Estimated Revenue $60 000; Budget Appropriation $54 000

Appropriation Transactions	Credits	Encumbrances	Vouchers	Transfers
(2) Appropriation A:				
Appropriation	$20 000			
Order 201		$1 600		
Miscellaneous Voucher			$ 57	
Order 225		310		
Voucher on Order 201			1 625	
Voucher on Order 225			302	
Appropriation Increased	2 000			
Order 310		800		
(3) Appropriation B:				
Appropriation	22 000			
Contract 10		4 000		
Payment on Contract 10			600	
Order 259		465		
Miscellaneous Voucher			94	
Voucher on Order 259			465	
(4) Appropriation C:				
Budget Appropriation	12 000			
Order 632		420		
Payroll			1 400	
Order 781		942		
Voucher on Order 632			417	
Contract		4 200		
Order 987		1 212		
Supplies from Stores Department				$621
Miscellaneous Expense			217	
Payment on Contract			1 000	
Refund on Voucher on Order 632	12			

Open general ledger control accounts for the foregoing transactions. Make summary entries therein, and set up appropriation ledger accounts in special form.

Prepare:
(*a*) Statement of appropriations.
(*b*) Fund balance sheet.

PROBLEM 27

(Chapter VIII)

The following transactions relate to Problem 25, *Corporate Fund.*

Order No.	*Item*	*Appropriation*	*Estimate*	*Vouchers*
101	Materials	Streets	$ 1 400	$ 1 420
102	Chemicals	Fire	960	
103	Stationery	Gen. Govt.	325	316
104	Hose	Fire	3 400	3 446
105	Ambulance	Police	4 300	4 300
106	Supplies	B. & G.	625	672
107	Tools	Streets	1 800	
108	Truck	Fire	5 670	5 670
109	Supplies	Police	430	
Contract No.				
201	Paving	Local Imp.	6 724	2 500*
202	Elec. Current	St. Ltg.	30 000	2 912*
203	Repairs	Pub. Wks.	1 800	1 827
204	Addition	Garage	8 620	2 000*
			(66 054)	(25 063)
Other Vouchers No.				
301	Payroll	Gen. Govt.		1 200
302	Service	Law		500
303	Payroll	Police		5 600
304	Payroll	Fire		4 200
305	Travel	Health		210
306	Payroll	Streets		2 100
307	Interest	Interest		1 000
				(14 810)

* Part payments.

1. Open subsidiary appropriation ledger accounts (special form) for all corporate fund appropriations and enter amounts appropriated. (See Problem 25.)
2. Enter the above transactions.
3. Prepare a statement of appropriations after entering above.

PROBLEM 28

(Chapter VIII)

The following appropriations appear in a state budget.

1. General Revenue Fund:	
(*a*) Department of Registration and Education	
(1) Registration	$ 193 180
(2) Natural History Survey	85 800
(3) Water Survey	56 250
(*b*) Department of Trade and Commerce	
(1) Bureau of Standards	31 800
(2) Insurance	200 520
(3) Grain Inspection	602 640
2. Fire Prevention Fund:	
(*a*) Fire Prevention	209 240
3. Road and Bridge Fund:	
(*a*) Road Maintenance	3 000 000
(*b*) Interest on Highway Bonds	4 000 000

The Order Register for the month of July showed the following items relating to the above appropriations.

No. 1. Natural History Survey Laboratory Supplies	$ 260
2. Water Survey Laboratory Apparatus	470
3. Grain Inspection Office Supplies	140
4. Road Maintenance Tractor	1 600
5. Registration Printing	620
6. Natural History Survey Printing	420
7. Fire Prevention Printing	270
8. Standards Apparatus	410
9 Registration Office Supplies	160
10. Road Maintenance Machinery Repairs	240
11. Insurance Calculating Machine	860
12. Road Maintenance Materials	3 100

The Voucher Register for the same month showed the following items on the above appropriations.

1. Water Survey	
Travel Voucher	$ 624
2. Grain Inspection	
Express Voucher	69
3. Highway Bond Interest	
Interest Payments	20 000
4. Order 2	465
5. Order 10	250
6. Order 5	620
7. Order 11	871
8. Fire Prevention	
Telephone and Telegraph	33
9. Registration	
Travel	1 621
10. Road Maintenance	
Payroll	16 210
11. Natural History Survey	
Payroll	3 820
12. Order 12	3 126
13. Order 6	
One-half delivered	216

Order 3 was canceled.

1. Set up subsidiary ledger accounts in the proper form for all appropriations and record all above transactions therein.
2. Prepare a statement of appropriations as of the end of the month.

PROBLEM 29

(Chapter VIII)

The following material relates to State Budget, Problems 6 and 15.

I. Contracts and orders issued for three months ending October 1:	
1. General Revenue Fund appropriations	$1 874 000
2. Road Fund	6 824 000
II. Vouchers audited on account of orders and contracts:	
1. General Revenue Fund, estimate	1 427 000
actual	1 428 642
2. Road Fund, estimate	1 800 000
actual	1 796 487
III. Other vouchers audited:	
1. General Revenue Fund	2 826 440
2. University Fund	681 327
3. School Fund	2 126 000

4. Soldiers' Compensation Fund	$ 400 000
5. Road Fund	6 932 423

IV. Warrants issued on account of above vouchers:

1. General Revenue Fund	3 897 600
2. University Fund	623 420
3. School Fund	2 000 000
4. Road Fund	8 349 648

1. Journalize the above.
2. Prepare a summary statement of appropriations as of October 1.

PROBLEM 30

(Chapter VIII)

Assuming that the transactions in Problem 55 which relate to appropriations are all in one appropriation, set up a subsidiary appropriation ledger account in proper form and enter the transactions therein.

PROBLEM 31

(Chapter VIII)

The following data represent transactions affecting appropriation accounts of a certain city.

Unexpended Balances from 1948 reappropriated to 1949:	
General Government Fund	$ 146 716
Departmental Fund	186 646
Special Fund	107 820 *
Hospital Fund	75 911
Appropriations for 1949:	
General Government Funds	3 951 018
Departmental Funds	7 371 526
Special Fund	532 185
Hospital Fund	778 550
Expenditure vouchers for 1949:	
General Government Fund	3 875 611
Departmental Fund	7 217 664
Special Fund	417 759
Hospital Fund	511 146
Reserve for Orders and Contracts, Dec. 31, 1949:	
General Government Fund	8 062
Departmental Fund	115 930
Special Fund	975

* Deficit, deduct.

Of the Unencumbered Balances, the following were carried to Unappropriated Surplus, the remainder being carried over to 1950:

General Government Fund	$211 330
Departmental Fund	174 111
Special Fund	5 148

Required:

Statement of appropriations (by funds) for the year ended December 31, 1949.

PROBLEM 32

(Chapter VIII)

In auditing the books of a municipality it was found that the appropriations account balance after subtracting expenditures and appropriation encumbrances was not equal to the sum of the accounts in the subsidiary Appropriations Ledger. You have verified the entries in the General Ledger and in all of the subsidiary ledger accounts except one and found them all correct. The one not yet verified is produced herewith. It is to be examined, any errors reported, and the amount by which the control did not prove indicated.

APPROPRIATION FOR X

Explanation	Encumbrances		Vouchers	Transfers	Credits	Balance
	Dr.	Cr.				
Original appropriation					$10 000	$10 000
Order 1	$ 500					9 500
Contract 1	2 000					7 500
Requisition from stores				$ 100		7 600
Vouchers for wages			$300			7 300
Contract 2	2 500					4 800
Order 2	200					4 600
Order 1 received		$510	510			4 600
25% of Contract 1 paid			500			4 100
Refund on Order 1		10				4 100
Order 2 paid		200	190			4 100
Contract 2 canceled					2 500	6 600
Appropriation reduced				1 000		5 600

PROBLEM 33

(Chapter IX)

Make a statement of receipts and disbursements for the year from the information given in Problem 22.

PROBLEM 34

(Chapter IX)

The tax levy for a special fund made January 1 was $2,628,870. The receipts to the fund to June 30, were $1,643,886, which constituted the balance in the fund July 1. Receipts for succeeding months were as follows:

July	$573 684
August	104 274
September	76 882
October	66 666
November	3

The receipts for November concluded the possible collections from this levy.

On July 1, an appropriation of $2,500,000 was made from this fund. Vouchers were certified against this appropriation and warrants issued as follows:

July	$178 755
August	191 147
September	241 683
October	266 717

In November vouchers were certified to the amount of $321,161, of which warrants were issued to the amount of $234,387.

The total amount of warrants paid by the Treasurer during the five months ending November 30 was $948,117. There were no warrants outstanding July 1.

1. Set up the accounts of the Auditor and Treasurer to record these transactions, and reconcile the Auditor's cash balance with the Treasurer's balance on November 30.

2. Present a balance sheet of the fund as of November 30.

PROBLEM 35

(Chapter IX)

The accounts of an institution showed on January 1 the following cash balances after crediting all warrants issued:

Revenue Fund	$86 000
Trust Fund	24 500
Capital Fund	12 000

Warrants outstanding and unpaid by the Treasurer January 1 amounted to:

Revenue Fund	$3 900
Trust Fund	400
Capital Fund	1 800

Receipts January 1 to 31 were as follows:

Revenue Fund	$62 000 *
Capital Fund	6 000

* Of these receipts $900, received January 31, was not deposited with the Treasurer until February 1.

Warrants drawn during January:

Revenue Fund	$107 000
Trust Fund	4 200
Capital Fund	3 400

Warrants paid by Treasurer during January:

Revenue Fund	$105 100
Trust Fund	4 600
Capital Fund	4 000

1. Set up cash accounts in the accounting office and Treasurer's accounts.

2. Prepare a treasury report.

3. Make a reconciliation statement as at January 31 of the balances of the Accounting Department and the Treasury.

PROBLEM 36

(Chapter IX)

Fund	Treasury Balances Beginning of Year	Warrants Outstanding at Beginning of Year	Receipts of Treasury During Year	Warrants Paid During Year by Treasury
General	$ 1 182	$227	$586 045	$585 796
Water	5 536	628	102 318	96 732
Special Assessment	686		308 762	290 598
Sanitarium	10 707	320	10 804	11 708
Park	1 231		24 918	19 144
Library	8 077	787	19 138	17 926

From the foregoing additional information concerning Problems 22 and 33, prepare:

1. Treasury accounts.
2. Treasury report.
3. Treasury reconciliation.

PROBLEM 37

(Chapter IX)

The following figures cover cash transactions.

	Treasurer's Balances, February 1	*Warrants Outstanding, February 1*	*Receipts for February (Auditor and Treasurer)*
Revenue Fund	$5 465 130	$267 824	$ 669 207
School Fund	356 865		10 687
University Fund	1 032 869	42 821	3 339
Road Fund	2 013 241	76 827	1 819 056
Waterway Fund	3 387 067		

	Warrants Issued by Auditor in February	*Warrants Paid by Treasurer in February*
Revenue Fund	$2 276 821	$2 328 437
School Fund	70 694	69 576
University Fund	279 842	286 852
Road Fund	820 648	805 430
Waterway Fund	19 738	18 280

1. Set up necessary accounts of the Treasurer to record above and prepare a treasury report as of March 1.

2. Set up cash accounts of the Auditor's Office, and prepare a statement reconciling the balances of the two offices as of March 1.

PROBLEM 38

(Chapter IX)

The cash balances of a municipality on January 1, 1949, were as follows:

General Fund	$310 712
Education Fund	498 094
Park Fund	21 459
Bond Fund	458 324
Special Assessment Fund	358 577

Trust Fund	$ 10 866
Sinking Fund	136 226

Receipts during 1949:

GENERAL FUND:	
Taxes:	
This year's	$1 152 629
Prior years	96 129
Licenses and Fees	880 039
Fines and Forfeits	64 175
Temporary Loans	2 400 000
Rentals	10 165
Accounts Receivable, prior years	26 403
Sale of Investments	37 292
Miscellaneous Revenue	7 486
Interest on Bank Balances	18 045
EDUCATION FUND:	
Taxes	2 285 951
Tuition	35 329
U. S. Government Grant for current expense	15 000
PARK FUND:	
Taxes	147 155
Miscellaneous Revenue	3 461
BOND FUND:	
Interest on Bank Balances	7 143
SPECIAL ASSESSMENT FUND:	
Interest on Assessments Receivable	225 619
Sale of Investments	43 497
Assessments Receivable Collected	1 004 554
TRUST FUND:	
Interest on Investments	7 223
Sale of Investments	80 500
SINKING FUND:	
Interest on Investments	31 258
Sale of Investments	492 000

Disbursements for the year 1949:

General Fund	4 479 641
Education	2 288 140
Park	170 268
Bond	292 874
Special Assessment	1 505 674
Trust	86 187
Sinking Fund	989 203

The following transfers were made from the General Fund:

Park Fund	$ 10 000
Bond Fund	10 000
Trust Fund	5 206
Sinking Fund	330 500

Prepare:

1. A statement of receipts for 1949.
2. A summary of receipts and disbursements for 1949.

PROBLEM 39

(Chapter IX)

The following is a summary of transactions for 1949:

Balances per treasurer's books, January 1, 1949:

General Fund	$ 77 430
Special Funds	21 560
Bond, Sinking, and Interest Funds	44 249 *
Construction Funds	12 156
Trust Funds	64 367
Water Fund	61 650

Warrants Payable per auditor's books, January 1, 1949:

General Fund	44 056
Special Funds	6 987
Construction Funds	3 332
Trust Funds	22 500
Water Funds	11 244

Warrants Payable per auditor's books, December 31, 1949:

General Fund	23 121
Special Funds	5 782
Construction Funds	1 838
Trust Funds	19 481
Water Funds	12 624

Tax Receipts for the year:

General Fund	431 561
Special Funds	167 280
Bond, Sinking, and Interest Funds	648 125

* Overdraft.

Construction Funds	$ 1 094
Trust Funds	280 398
Miscellaneous Receipts for the year:	
General Fund	87 243
Special Funds	12 185
Bond, Sinking, and Interest Funds	154 906
Construction Funds	98 390
Trust Funds	260 151
Water Funds	376 421
Unliquidated Encumbrances, January 1, 1949:	
General Fund	61
Trust Funds	1 695
Water Fund	445
Appropriations and Encumbrances entered into, 1949:	
General Fund	529 515
Special Funds	179 235
Bond, Sinking, and Interest Funds	782 262
Construction Funds	85 241
Trust Funds	437 238
Water Fund	398 391
All of the foregoing encumbrances had been liquidated at December 31, 1949, by issuance of warrants, except:	
General Fund	27
Trust Funds	39
Water Fund	1 358
Warrant canceled—General Fund	2
Non-appropriation liabilities incurred and liquidated—Bond, Sinking, and Interest Funds	63 730
Cash balances per treasurer's books, January 1, 1949:	
Central National Bank	20 457
Citizens State Bank	5 000
Fidelity Savings State Bank	19 850
Guaranty State Bank	19 850
Kam Valley State Bank	19 850
Merchants National Bank	19 850
City National Bank	19 850
City State Bank	19 850
On hand	48 358
Cash on hand, December 31, 1949	54 132

Deposits during year:	
Central National Bank	$425 485
All other banks except Citizens State Bank, each	347 750

Cash disbursed during the year as follows:

Central National Bank	424 703
Each other bank except Citizens State	346 160

Required:

1. Cash accounts on both the treasurer's and the auditor's books;
2. Treasury statement for the year;
3. Reconciliation of the balances of the two offices at the close of the year.

PROBLEM 40

(Chapter X)

The following are the transactions of a fund for the fiscal year:

1. Estimated revenue	$317 000
2. Appropriations	312 000
3. Taxes assessed	240 000
Reserve	5 000
4. Anticipation notes sold for cash	100 000
Accrued interest received on same	400
5. Current taxes collected	237 000
6. Other current revenues collected	81 000
7. Orders placed	216 000
8. Orders liquidated	212 000
9. Vouchers audited against appropriations	303 000
10. Vouchers for payment of anticipation notes	100 000
Interest on same	3 200
11. Next year licenses collected in advance	2 000
12. State taxes collected	61 000
13. Voucher for partial remittance of state taxes	50 000
14. Sale of obsolete equipment for cash	600
15. Temporary investment of surplus cash in securities (voucher)	5 000
16. Warrants issued	458 200

(*a*) Set up General Ledger accounts.

(*b*) Close the accounts as of the end of the fiscal year.

(*c*) Present a balance sheet of the fund after closing. (Outstanding taxes are considered uncollectible.)

PROBLEM 41

(Chapter X)

The following is the Trial Balance of a revenue fund at the end of a fiscal year:

Accounts Receivable	$ 2 964	
Accounts Payable		$ 2 160
Appropriations		15 544
Appropriation Encumbrances	1 920	
Cash	3 124	
Due from Other Funds	1 400	
Due from State	4 000	
Estimated Revenues	10 900	
Expenditures	12 319	
Notes Payable		7 000
Reserve for Encumbrances		1 920
Reserve for Uncollectible Taxes		2 000
Revenues		9 228
Sale of Property		2 000
Taxes Receivable	1 545	
Unappropriated Surplus	1 680	
	$39 852	$39 852

Revenue collections, made by various officers and not yet turned in and, therefore, not included above, amount to $1,420.

The outstanding taxes are to be retained on the books, offset by a 100% reserve.

Of the appropriations unexpended, the sum of $1,000 represents an appropriation available for two years and, therefore, not to be lapsed at this time.

1. Open General Ledger accounts for above trial balance. Journalize all necessary closing and adjusting entries and carry them to the ledger.
2. Close the accounts and bring down balances.
3. Present a balance sheet of the fund after closing.

PROBLEM 42

(Chapter X)

The following are totals of accounts for a year.

General Ledger

General Fund	*Dr.*	*Cr.*
Accounts Payable	$383 485	$388 185
Appropriations		350 376

General Fund (Continued)	*Dr.*	*Cr.*
Appropriation Encumbrances	$217 640	$210 820
Cash	414 009	393 485
Departmental Accounts Receivable	26 219	19 662
Due from Water Fund	10 000	
Estimated Revenues	382 549	
Expenditures	338 185	
General Taxes Receivable	231 826	229 167
Notes Payable	50 000	50 000
Reserve for Encumbrances	210 820	217 640
Reserve for Uncollectible Taxes		3 542
Revenues		370 903
Special Taxes Receivable	92 820	91 600
Unappropriated Surplus	350 376	382 549
Water Fund		
Accounts Payable	97 642	99 186
Accounts Receivable	101 846	89 231
Appropriations		101 180
Appropriation Encumbrances	42 820	38 940
Cash	100 131	97 642
Due to General Fund		10 000
Estimated Revenues	104 363	
Expenditures	99 186	
Reserve for Encumbrances	38 940	42 820
Revenues		101 846
Sale of Old Equipment		900
Unappropriated Surplus	101 180	104 363
Pension Fund		
Accounts Payable	4 960	4 960
Appropriations		4 634
Cash	5 180	4 960
Estimated Revenues	5 400	
Expenditures	4 960	
Revenues		5 180
Unappropriated Surplus	4 634	5 400
Library Fund		
Accounts Payable	21 960	21 960
Appropriations		17 827
Appropriation Encumbrances	18 970	16 820
Cash	25 588	21 960
Estimated Revenues	20 000	
Expenditures	16 960	
Notes Payable	5 000	5 000
Reserve for Encumbrances	16 820	18 970
Reserve for Uncollectible Taxes	117	648
Revenues		21 302

Taxes Receivable	$ 21 600	$ 20 331
Unappropriated Surplus	17 803	20 000

Revenue Ledger

General Fund	*Dr.*	*Cr.*
General Taxes	$228 284	$228 284
Special Taxes	102 100	92 820
Licenses	21 609	20 445
Fines	2 812	3 135
Departments	27 744	26 219

Appropriation Ledger

General Fund	*Encumbrances*	*Expenditures*	*Credits*
General Government		$ 35 488	$ 36 881
Public Health	$1 685	134 782	137 647
Public Works	1 870	69 546	71 871
Parks and Playgrounds		25 167	26 132
Interest and Debt		32 120	32 120
Public Improvements	3 265	31 482	35 725
Water Department Equipment		9 600	10 000

1. Set up ledger accounts to show in summary the transactions of the period.

2. Close the accounts at the end of the period, and present fund balance sheets after closing. (Outstanding taxes are to be charged off as uncollectible.)

PROBLEM 43

(Chapter X)

Transactions of the General Fund for the year 1949:

Balance of unappropriated surplus, January 1, 1949	$ 15 818
Budget revenue estimates:	
General levy of taxes	434 812
Licenses	29 660
Permits	4 430
Franchises	10 730
Rents	6 234
Fees	5 707
Services	16 990
Fines and forfeitures	12 000
Interest on bank balances	2 000
Water department taxes	21 317
Transactions for the year:	
Collections of general levy of taxes:	
Year 1949	434 038
Year 1948	3 166

Payment of prior years expenditures		$ 1 468
Fees received		6 746
Interest on bank balances		2 505
Received revenues of prior years		2 905
Cash from temporary loans payable		10 000
Licenses collected		40 722
Taxes from Water Department		25 622
Refunds of 1948 taxes		2 451
Permits issued		7 076
Refunds on expenditures of prior years		2 735
Loaned to Special Assessment Fund		3 122
Received for services rendered		19 499
Canceled warrants (issued in 1948)		2
Franchises given		14 952
Fines and forfeitures assessed and collected		7 966
Transfer to emergency reserve		23 000
Expenditures for the year:		
Budgeted	$548 881	
Actual	545 565	
Appropriation from Fire Platoon Fund		1 283
Rentals received		6 964
Reserve for encumbrances was increased by		865

The books are kept on a cash basis.

Prepare:

1. Statement of revenue, showing a comparison of the actual with the budgeted estimates.
2. Statement of revenue, expenditures, and surplus for year 1949.

PROBLEM 44

(Chapter X)

Balance of Surplus, January 1, 1949	$1 614 485
Sundry appropriations to other funds	132 428
Revenue for the year	7 011 324
Expenditures for the year	6 614 687
Worthless checks written off	473
Warrant for collections written off as uncollectible	258
Cancelation of old disbursement warrants not presented for payment	7
Refunds of expenditures	63
Special appropriation to Sinking Fund to cover deficit at December 31, 1949	16 766
Unexpended Balance on completed projects	1 242
Accrued interest on bonds payable, but not yet due	503 571
Additional provision that was required for bond interest applicable to year 1948	7 250

Royalties received	$ 22
Accounts Receivable written off out of surplus	588
Fire insurance collected in 1945 but carried as a deferred credit until this year	200 000
Refund of revenues collected in prior years	32

From the foregoing information prepare an analysis of General Fund Surplus of a municipality.

PROBLEM 45

(Chapter X)

The following general fund accounts are found on December 31, 1949, on the books of a county.

Due to State	$ 4 000
Due from State	932
Surplus	8 698
Uncollected State Taxes 1949	4 892
Warrants Payable	28 651
Reserve for Uncollected County Taxes 1949	13 779
Cash	55 417
Uncollected County Taxes 1949	13 779
Temporary Loans Payable	15 000
Reserve for Uncollected State Taxes 1949	4 892

The county does not credit the fund revenue for taxes until they are collected. Therefore, when assessed, the credit goes to the Reserve for Uncollected Taxes.

When expenses are incurred and warrants are issued the warrants payable are set up as a liability until paid by the Treasurer.

Two separate accounts are kept with the state.

The following transactions are for the year 1950.

County taxes levied for 1950	$103 964
State taxes levied for 1950	47 258
Warrants paid by County Treasurer	25 000
Temporary loans paid by County Treasurer	10 000
Interest on temporary loans paid by County Treasurer	450
Dog licenses levied and collected (15% of dog licenses goes to the state)	300
County taxes collected for 1949	9 548
County taxes collected for 1950	85 400
States taxes collected for 1949	4 000
State taxes collected for 1950	41 852
Warrants issued for cost of jury trials (to be paid by state)	3 007
Cash paid to State Treasurer by County Treasurer	44 000
Warrants issued for salaries and wages	59 071

Warrants issued for supplies to be used during current year	$21 635
Warrants paid by County Treasurer	60 411

An additional 5% is charged to all uncollected taxes for 1950 according to state statute.

1. Set up the general ledger accounts.
2. Prepare a balance sheet as of the end of the year, and a statement of revenues, expenditures, and surplus for the year.

PROBLEM 46

(Chapter X)

The balance in the accounts of the General Fund on January 1, 1949, and on December 31, 1949, before closing were as follows:

General Fund	*January 1*	*December 31*
Cash	$ 102 345	$ 88 382
Accounts Receivable	25 798	19 095
Taxes Receivable 1948	206 167	171 151
Taxes Receivable 1949		280 780
Inventories	31 549	28 364
Deferred Charges	6 885	7 184
Permanent Property	17 827 498	17 827 498
Estimated Revenue from taxes		1 700 000
Estimated Revenue from Miscellaneous Sources		200 000
Expenditures for current purposes		1 000 683
Expenditures for capital additions		69 474
Expenditures for payment of bonds		765 000
Appropriation Encumbrances		14 124
	$18 200 242	$22 171 735

	January 1	*December 31*
Accounts Payable	$ 103 112	$ 55 590
Bonds Payable	6 000 000	5 235 000
Capital Surplus	11 827 498	12 592 498
Revenue from Taxes		1 628 105
Miscellaneous Revenue		218 076
Appropriations		1 868 450
Sale of Old Equipment		12 491
Reserve for 1948 Taxes	94 615	94 615
Reserve for 1949 Taxes		23 461
Tax Anticipation Notes Payable 1949		200 000
Reserve for Encumbrances	8 651	14 124
Refunds on Expenditures		2 653
Surplus Receipts		24 898
Unappropriated Surplus	166 366	201 774
	$18 200 242	$22 171 735

Attention is directed to the following facts and conditions at the close of the year 1949:

1. 1948 taxes in excess of the reserve against them are to be written off.
2. The reserve against the taxes of 1949 is to be increased to 25% of the Taxes Receivable.
3. Invoices on all orders and contracts outstanding at the beginning of the year have been paid, but an additional expenditure of $4,793 was necessary which was charged against unappropriated surplus. These expenditures may be included with the year's expenditures instead of being shown as a separate item.
4. The old property sold during the year was carried in the accounts at a value of $45,000.
5. Permanent property valued at $10,156, becoming useless, was discarded during the year.
6. No entries have been made in Fixed Assets and Liabilities except for the payment of the bonds.

On the basis of the foregoing information, prepare:

1. Adjusting and closing entries.
2. Balance sheet for the General Fund after closing, December 31, 1949.
3. A statement of revenues, expenditures, and surplus for the year 1949.

PROBLEM 47

(Chapter XI)

A working capital fund for stores showed on July 1 the following balances.

Cash	$ 6 356
Inventory	112 622
Working Capital	118 978

The transactions for the year following for the various storerooms, including the inventories at the beginning and end of the year, were as follows.

	Office Stores	*Building Stores*	Laboratory *Stores*
Inventory, July 1	$19 581	$ 58 965	$34 076
Orders Out, July 1	2 200	1 700	1 840
July 1–June 30:			
Orders placed	68 400	204 000	64 000

	Office Stores	*Building Stores*	*Laboratory Stores*
Orders paid	$69 100	$200 100	$63 900
Purchase vouchers	69 877	199 095	63 845
Expense vouchers	3 951	2 994	3 992
Stores issued	73 545	218 934	58 256
Inventory, June 30	19 305	43 810	42 987

1. Set up general ledger accounts of the Stores Fund for the above transactions; also, accounts of the subsidiary Stores Ledger. Make adjustments to Surplus necessary as a result of the inventory at the end of the year. Assume that all vouchers are paid and that all charges for stores issued are covered by transfers from the funds involved.

2. Prepare stores statement and a stores fund balance sheet as at end of year.

PROBLEM 48

(Chapter XI)

Stores Purchase Orders

Item	*Freight and Express*	*Unit*	*Estimate*	*Price*
Office Stores:				
30 reams 8½ x 11 Bond Paper	$ 2 70	1 ream 8½ x 11	$ 75 00	$ 75 00
40 Dozen Calendar Pads		1 Pad	175 00	172 80
1 Gross Typewriter Ribbons	72	1 Ribbon	57 60	57 60
Laboratory Stores:				
10 lb. Mercury Chloride	2 50	1 lb.	25 00	23 20
10 lb. Acid Perchloric		1 lb.	32 00	32 00
25 lb. Calcium Hypochlorite	1 25	1 lb.	7 00	7 75
Building Stores:				
635 Gal. Gasoline		1 gal.	75 00	76 20
1000 ft. Galv. Pipe, 1½ in.	4 40	1 ft.	300 00	291 30
10 50# Kegs 10p Nails	10 00	1 lb.	95 00	95 00

Overhead Expense

Wages, Office Stores	$10 25
Printing, Chemical Stores	4 40
Wages, Building Stores	8 60

DEPARTMENTAL REQUISITIONS

Parks:
- 6 Typewriter Ribbons
- 1 lb. Mercury Chloride

Streets:
- 2 Reams Bond
- 120 ft. pipe

Fire:
- 2 lb. Calcium Hypochlorite
- 2 Calendar Pads
- 75 Gal. Gasoline

Building:
- 40 lb. Nails
- 1 lb. Perchloric Acid

1. Prepare the following records on account of above transactions: Stock Record, General Ledger, Stores Ledger. (Sale price to departments, cost plus 5%.)

2. Reconcile Stores Ledger and Stock Record.

PROBLEM 49

(Chapter XII)

The following balances appear in the General Fund on April 1:

Accounts Payable	$ 32 820
Advances to Working Capital Fund	50 000
Appropriations	915 649
Appropriation Encumbrances	169 692
Cash	13 892
Estimated Revenues from Licenses, etc.	125 000
Estimated Revenues from Taxes	800 000
Expenditures	70 994
Reserve for Encumbrances	169 692
Reserve for Working Capital	50 000
Reserve for Uncollectible Taxes	40 849
Revenues from Licenses	28 200
Revenues from Taxes	800 000
Taxes Receivable	816 982
Unappropriated Surplus	9 350

In the Working Capital Fund:

Cash	22 307
Stores	27 692
Capital	50 000

The following are the transactions for the month of April:

Receipts:	
From taxes	$218 427
From licenses, etc.	31 620
Purchase orders	
(a) On account of stores, estimated	16 400
(b) On account of appropriations, estimated	90 817

Purchase vouchers	
(*a*) On account of stores	
Estimated	$ 7 615
Actual	7 827
(*b*) On account of appropriations	
Estimated	107 816
Actual	106 948
Payroll, and other non-purchase vouchers	
(*a*) On account of jobs in process	42 120
(*b*) On appropriation accounts	74 800
Stores issued	
(*a*) On jobs	14 822
(*b*) On appropriations	3 142
Job orders issued—estimate (Genl. Fund appros.)	61 840
Jobs closed out	
Estimated	43 820
Actual	44 321
Additional appropriations	3 200
Petty cash fund established	2 500
Warrants issued:	
General Fund	186 926
Working Capital Fund	44 915

Set up general ledger accounts to record above, and show fund balance sheets April 30. (All necessary interfund transfers for current transactions are to be completed.)

PROBLEM 50

(Chapter XII)

The following transactions relate to Problem 49:

Job Number	Estimate	Labor (Reports)	Stores	Miscellaneous (Non-purchase vouchers)
1	$ 6 400	$4 220	$1 716	$ 127
2	8 700	6 710		
3	16 200	9 820	5 921	50
4	10 800	6 320	3 604	
5	10 420	7 820	1 882	23
6	9 320	4 990	1 650	175
Undistributed		3 120	48	60
Payroll Vouchers				41 685
Totals as per Problem 49	$61 840		$14 821	$42 120

Overhead rate is 10% on direct labor, charged when job is closed out.

Jobs 1, 3, 4 and 5 are closed out; total cost as per Problem 49, $44,321.

1. Set up all necessary accounts in the Service Department for above.

2. Prepare trial balance of service department ledger and show that it is in balance with the accounts of the general office. Show that the Job Ledger is in balance with the control account.

PROBLEM 51

(Chapter XII)

On July 1 a working capital fund of $25,000 for a job system is established.

The following jobs with their estimated cost are opened:

Job 816—Estimate	$ 620	General fund appropriations
Job 842—Estimate	290	
Job 865—Estimate	275	
Job 867—Estimate	640	
Job 928—Estimate	1 200	Building fund appropriations
Job 987—Estimate	950	

The following labor charges are reported:

July 1: Job 816, $38; Job 842, $96; Job 928, $310; Job 867, $40; Job 987, $118; undistributed $68.

July 2: Job 842, $105; Job 928, $50; Job 816, $75; Job 867, $55; Job 987, $150; Job 865, $117; undistributed $52.

July 3: Job 865, $30; Job 842, $1; Job 928, $65; Job 987, $95; Job 867, $145; Job 816, $105; undistributed $39.

The following are material charges, summarized and reported daily:

Date	*Requisition Number*	*Job Number*	*Amount*
July 1	6 874	987	$218
	6 875	928	304
	6 876	816	65
	6 877	867	108
July 2	6 880	842	38
	6 890	865	115
	6 878	867	75
	6 879	816	102
	6 898	987	42
	6 891	928	245
	6 872	842	13

Date	*Requisition Number*	*Job Number*	*Amount*
July 3	6 883	842	$ 14
	6 888	928	250
	6 881	816	113
	6 893	867	41
	6 884	987	76

The following miscellaneous expense vouchers are paid:

July 2	Telegram	$ 1
	Freight	18
	Printing	3
July 3	Payroll	1 684

Assume there were no balances July 1. Jobs 842, 865, and 928 are completed and closed July 3. The rate of overhead is 10% on direct labor, entered as each job is completed. (Enter to nearest dollar.)

1. Set up all working capital fund accounts in both general office and service department office, and reconcile as of July 3.
2. Prepare a balance sheet of the Working Capital Fund and a trial balance of the service department office accounts July 3.

PROBLEM 52

(Chapter XII)

Cash	$ 627
Due from Other Funds	2 517
Due to Stores Fund	1 248
General Office	3 780
Jobs in Process: No. 121, $1 624; No. 136, $1 284; No. 187, $1 258	
Labor	320
Overhead	380
Material	446
Service Department	4 390
Accounts Payable	1 286
Working Capital	5 000
(Job Cost Vouchers in transit amount to $610)	

Assemble the foregoing accounts of a Job System in proper groups and show their relation to each other.

PROBLEM 53

(Chapter XII)

A working capital fund is set up to cover the operations of a stores system, a printing department, and a repair department.

1. Amount of fund $25,000.
2. Stores are purchased to amount of $12,765 of which $10,226 is paid for in cash, and $1,140 is payable to other funds.
3. Labor as per daily time reports in printing department totals $3,827; in repair department, $8,654. Of these amounts, $346 and $869 respectively represent non-chargeable time.
4. Material secured from stores by printing department, $2,657; by repair department, $3,892. (These items are cleared in full.) Departmental requisitions for stores amounted to $1,653.
5. Payrolls issued and paid for printing department, $3,562; for repair department, $8,140; for stores department, $257.
6. Overhead distributed to printing jobs amounted to $295; and to repair jobs, $683.
7. Jobs closed out: printing, $3,955; repair, $7,659. Of the latter $896 are billed against outside parties.

Enter the above transactions in T accounts in proper groups, and present a balance sheet of the fund and related trial balances of the service departments.

PROBLEM 54

(Chapter XII)

The following problem is based on the accounts kept by a print shop of Midwestern University. It operates as a service department, supplying certain types of printing to the university at a standardized cost. The accounts and departments are condensed in this problem in order to reduce detail.

Since the print shop is only a service department, there is no cash account, but all receivables and payables (except accrued wages at the end of the year) are combined into one account called "general accounting office." The actual receivables, payables, and payments, of the print shop are taken care of by the general accounting office which has a reciprocal account with the print shop.

The print shop is divided into four departments which are charged with all of the direct expenses of each department. The general factory expenses are totaled for the year and distributed over the departments on the basis of direct labor or machine hours.

When jobs are worked on; "Work in Process—Labor" is charged with an amount determined by multiplying a fixed hour rate by the number of hours spent in the department. The credit is made to accounts called "Used Department Costs, Department ——." This represents the income to the print shop.

"Work in Process—Material" is charged and General Accounting Office credited at cost for material (paper, cardboard, etc.), but any scraps which can be used from preceding jobs are also charged (at an estimated figure), the credit being an income to the print shop. Since the material is charged and credited to the print shop at the same price, it is not included in the Income and Expense Statement.

Quite often jobs are "closed out" (charged to the university) before they are completed in order to bring the cost of the jobs within the university appropriation of a particular fiscal year. When this is done, a reserve is set up instead of crediting the work in process accounts.

The following were the account balances on July 1, 1949.

General Accounting Office	$ 8 600 97
Bindery Equipment	10 271 15
Bindery Stores	60 26
Composition Machines	44 624 34
General Fixed Equipment	6 088 70
Operating Reserve	818 02
Operating Surplus	3 478 80
Printing Presses	19 974 09
Reserve for Jobs Closed Out Before Completion	800 00
Surplus Invested in Fixed Assets	90 202 21
Type Metal (asset)	9 243 93
Work in Process—Labor	10 637 53
Work in Process—Material	3 000 00

A summary of the year's transactions is as follows:

1. Reserve for vacations was set up in the Operating Reserve account at the beginning of the year for the 4 departments as follows:

Department I	(Composition Department)	$800
Department II	(Press Department)	400
Department III	(Bindery Department)	300
Department IV	(Proofreading Department)	100

2. The superintendent of the shop drew $3,670 as salary for the year.

3. Clerical salaries paid amounted to $3,046.84.

4. Bindery stores and supplies were purchased at a cost of $152.70.

5. Repairs by departments amounted to $607.39 in Department I, $221.15 in Department II, and $144.20 in Department III.

6. The cost of light and power used in the print shop was $1,570.55, and the general factory expense totaled $472.72.

7. The print shop purchased type metal from its own funds at a cost of $749.71.

8. The value of paper, cardboard, and other material put into process during the year amounted to $15,530.30. Of this amount $5,000 was purchased from commercial companies, $10,395.85 was requisitioned from the university general stores, and the balance was obtained from scraps in the print shop.

9. The total of all supplies and stores used by the operating departments amounted to $3,077.67. Department I used $1,173.18; Department II used $1,719.43; Department III used $182.54; and Department IV used the balance. Of all the supplies used by Department III, $122.86 came from stores of the print shop. The cost of supplies used in the general office amounted to $996.50.

10. Wages earned by departments were: Department I, $16,127.11; Department II, $7,164.71; Department III, $6,044; Department IV, $2,051.60. Of the wages earned $134.97 was accrued and unpaid at the end of the year.

11. The value of material in process at the end of the year was $54.45.

12. Jobs worked on during the year were charged with 14,682.6 hours in Department I, 8,381.4 hours in Department II, 7,705.3 hours in Department III, and 2,905.85 hours in Department IV. This work completed the jobs in process at the beginning of the year, and it included $800 which had been charged at the end of the preceding period for work uncompleted.

13. The commercial companies from whom the material was purchased gave a cash discount to the university of $48.87, which was credited to the print shop.

14. The uncompleted jobs, exclusive of material at the end of the year, totaled $136.21.

15. The total general expenses were distributed to the four departments on the following basis:

Department IV	$ 564 93
Department III	1 768 55
Department II	2 517 77
Department I	The balance

16. Miscellaneous expenses of $1,498.96 were incurred. The nature of these expenses prevented their being charged to any one year's operation.

17. The print shop purchased manufactured type for $626.41 to replace type of the same cost which had worn out.

18. During the year payments to the extent of $1,692.80 were made to employees who were sick and on vacations.

19. New equipment purchased during the year amounted to $59.64 for General Fixed Equipment, $1,347.06 for composition machines; $166.64 for presses, and $308.05 for bindery equipment. The print shop paid $1,254.98 from its own funds for the machinery, and the balance was paid by a special university appropriation at no cost to the print shop.

20. The hour rates of charge are

Department I	$1 70
Department II	1 57
Department III	1 30
Department IV	1 00

From the foregoing facts you are to set up general ledger accounts of the print shop and to prepare the following statements:

(*a*) A balance sheet as of June 30, 1950.
(*b*) A statement of income and expense.
(*c*) A statement of surplus.
(Carry calculations to nearest cent.)

PROBLEM 55

(Chapter XII)

Following are transactions of the General Fund for one month:

(1) Estimated Revenue from Taxes	$216 000
Estimated Revenue from Licenses	42 500
Estimated Revenue from Fees	18 300
Estimated Miscellaneous Revenue	7 800
(2) Appropriations, all departments	259 620
(3) Actual tax levy	229 863
Reserve for uncollectible 5%	

Current transactions for month:

(4) Cash Receipts		
July 2	Notes (Temporary)	$25 000
18	Taxes (Current)	18 639
22	Refund on Voucher 2	6
27	Miscellaneous Revenue	469
31	Fees	1 840

(5) Purchase Orders			(6) Vouchers			(7) Warrants Drawn		
Date	No.	Est.	Date	No.	Amt.	Date	No.	Amt.
July 3	1	$ 125	July 6	1	$123	July 10	1	$ 123
7	2	3 240						
10	3	627	14	2	639	16	2	639
12	4	310						
14	5	440	21	3	430	30	3	430
18	6	6 827						
23	7	216	25	4	221			
26	8	312						
28	9	31	30	5	31			
31	10	400						
			31	6	25 100*	31	4	25 100 00

* To pay notes and interest.

(8) Stores Orders *			(9) Job Orders and Vouchers		
Date	Number	Amount	Date	Order Number	Amount
July 5	1	$112	July 9	1	700 Est.
15	2	427	16	2	450 Est.
27	3	346	29	Voucher on Job Order 2, $467	

* Material issued on general fund appropriations.

1. Set up all general ledger accounts affected by the above.
2. Prepare a balance sheet of the General Fund as of July 31.

PROBLEM 56

(Chapter XII)

1. General fund balances at beginning of year, represented by cash $1,300; taxes receivable net $3,500; accounts payable $800; unfilled orders and contracts $1,100.

2. Receipts for year: old taxes $3,200; current taxes $76,000; other current revenues $16,000; sale of old equipment costing $3,000 for $600; temporary loans, less repayments $5,000.

3. Disbursements for year: Accounts payable $800; invoices on last year's orders and contracts $1,200; expenses and interest $80,000; payment of bonds $10,000; purchase of fixed assets $4,000; petty cash advance established for city finance office $500; stores $4,000, of which $1,600 were issued to departments. A working capital reserve of $4,000 for stores in the General Fund was authorized during the year.

4. Taxes considered collectible at end of year (all are for current year) $7,000; orders and contracts outstanding at end of year $900.

From the foregoing information prepare:

(*a*) Statement of Revenues, Expenditures and Surplus for the year to which the information relates;

(*b*) Balance sheet of fund at end of year.

PROBLEM 57

(Chapter XIII)

The following facts concern a city-operated utility.

1. At the beginning of the year the surplus was stated to be $372,850. It is noted that the total investment in fixed assets was at that time $572,000, against which there were $250,000 of bonds.
2. Bills rendered for services, $164,522, of which $675 were canceled because of overcharges.
3. Sales of merchandise costing $2,854 totaled $3,267 on which cash discounts of $63 were allowed.
4. Plant and distribution expenses totaled $116,842.
5. Interest on investments amounted to $8,400.
6. Interest paid on bonds at four percent. The bonds were issued at a premium of $10,000 which is being amortized at 5% per year.
7. Depreciation is calculated at an average rate of 3% on investment in the entire plant at beginning of year.
8. Additions to plant and equipment during the year totaled $17,864.
9. Payments to the sinking fund for liquidation of the bond issue totaled $30,000.

Present:

1. A Statement of Operations for the year.
2. A Statement of Operating Surplus.

PROBLEM 58

(Chapter XIII)

Following are the operations of a Water Fund for the year 1949. The accounts of a sinking fund are included in the Water Fund.

Balances on January 1:

Cash	$ 153 677
Sinking Fund Cash	207 843
Accounts Receivable	327 926
Stores Inventory	136 051
Supplies	20 736
Sinking Fund Investments	962 500
Plant and Property	17 212 766
Accounts Payable	33 995
Accrued Interest Payable	87 676
Accrued Liabilities	2 121
Bonds Payable	6 747 000
Reserve for Depreciation of Plant and Property	96 129
Reserve for Retirement of Bonds	41 333
Reserve for Service Connection Replacements	7 490
Operating Surplus	465 776
Sinking Fund Reserve	1 170 343
Capital Surplus	10 369 636

Summary of the Transactions for the Year:

1. Sales of water billed	$832 951
2. Other revenue billed	90 950
3. Collections of accounts receivable	880 953
4. Other income billed through accounts receivable	35 233
5. Accounts receivable of prior years written off	12 839
6. Invoices for stores	63 172
7. Invoices for the following expenses were approved:	
Administration expense	139 303
Production expense	41 975
Distribution expense	176 099
8. Invoices for supplies	1 046
9. Income of prior years received not previously recorded	5 641
10. Investments purchased for the Sinking Fund	570 000
11. Stores used during the year	61 299
12. Supplies used	6 473
13. Outstanding bonds became due and were paid amounting to	79 000
14. Warrants were issued for the payment of interest	295 190
15. Warrants were issued for the additions to plant and property costing	145 269
16. Interest expense for the year amounted to	293 260
17. The Reserve for Bond Retirement was increased by	79 250

18. Appropriated from operations to the Sinking Fund	$ 90 000
19. Warrants were issued to pay vouchers	401 624
20. Warrants were issued for all accrued liabilities except interest	
21. Sinking fund investments sold	324 200
22. Interest received from sinking fund investments	63 750
23. Depreciation on plant and properties	24 854
24. The Reserve for Service Connection Replacement was increased to	10 490

Required:

(*a*) Enter the above as well as closing entries in the General Ledger.

(*b*) Statement of water fund operations for 1949.

(*c*) Balance sheet of the Water Fund at December 31, 1949.

(*d*) Statement of operating surplus for 1949.

PROBLEM 59

(Chapter XIII)

The following information was taken from the accounts of a water fund on December 31, 1949.

Balances of the Accounts on January 1 were:

Cash	$ 5 318 092
Accounts Receivable	725 423
Supplies Inventory	387 164
Replacement fund Investments	1 268 882
Permanent Property	122 416 644
Accounts Payable	1 587 413
Water Works Certificates Outstanding	20 062 000
Replacement Fund Reserve	1 268 882
Capital Surplus	102 354 644
Current Surplus	4 843 266

Summary of Transactions for the Year 1949:

1. Gross revenue billed to customers	$13 455 389
2. Accounts receivable collected	13 346 222
3. Uncollectible accounts receivable of prior years written off	295 915
4. Vouchers issued to pay certificates outstanding	1 230 000
also interest of	951 966
5. Voucher for construction and betterments of property	1 824 125
6. Interest received from investments	386 416
7. Supplies used during the year	518 899
8. Salaries and wages earned by employees during the year amounted to $5 005 845 of which vouchers were issued for	4 744 205

9. Permanent property worn out and written off	$ 385 462
10. Vouchers to replenish supplies inventory	555 687
11. Other income received in cash	95 062
12. Revenue of prior years collected	84 083
13. Vouchers were issued for current operating expenses	6 031 182
14. Replacements of permanent property were made from the replacement fund	498 355
15. Estimated depreciation on permanent property	185 687
16. Vouchers were issued to fully invest the replacement fund	
17. Warrants were drawn against vouchers	16 236 612

Required:

(*a*) General ledger accounts.
(*b*) An operating statement for 1949.
(*c*) A balance sheet as of December 31, 1949.
(*d*) A statement of current surplus.

PROBLEM 60

(Chapter XIII)

The following figures relate to the finances of a municipal utility.

1. Current assets $67,000.
2. Current liabilities $51,000.
3. Consumer's deposits (included in current assets) $3,000.
4. Depreciation fund assets: invested, $41,000; included in current assets, $3,000.
5. Fixed assets at original cost $341,000.
6. Bond liabilities $104,000.
7. Services rendered to the city, not paid for, $5,000. (Not included in above figures.)

Set up a summary balance sheet.

PROBLEM 61

(Chapter XIV)

The following are facts regarding a "local improvement."

The estimate of cost of the improvement is $101,000. An issue of $100,000 of 6% bonds, dated August 1, is sold at 101 and interest, taken up by the purchaser on November 1. The bonds mature serially, $7,500 being due one year from August 1.

Total expenditures for construction and other costs are $100,800. The assessment roll is confirmed and aggregates $100,880, and draws

interest at the rate of 6% per annum from September 1, except that $10,880 is assessed as a public benefit without interest.

The first instalment of the assessment consisting of 10% is due January 1 with interest on the entire assessment.

Abatements aggregating $280 are made in the assessments.

Assuming that all transactions are completed as above, that the first instalment, including $1,880 public benefit, is paid in full with interest, and that bonds and interest, due August 1, are paid, set up ledger accounts for the fund and show a balance sheet on August 1, the end of the first year.

PROBLEM 62

(Chapter XIV)

March 1. The construction of a pavement on an assessment plan is authorized. The engineer's estimate of cost is $58,240.

March 10. An issue of bonds for $60,000 is authorized.

March 10. Temporary loans of $10,000 secured from bank to finance project until bonds are sold. Loan is payable in 60 days with interest ($167). It is paid when due.

March 15. Engineering, legal, and court services amounting to $4,225 are paid.

March 20. Contract for pavement let for $53,200.

April 1. Bonds are sold at 99. Bonds bear interest from April 1 at 6%, payable semi-annually.

April 10. Payment made on contract $15,400.

May 10. Payment made on contract $20,800.

May 31. Final payment made on contract including extras of $515.

May 31. Assessment amounting to $60,000 authorized, of which 10% is assessed as a public benefit. Entire sum bears interest at 6% from April 1.

October 1. Interest on bonds paid, with aid of General Fund.

January 1. First instalment of assessments (10%) is collected in full with all accrued interest on entire assessment.

April 1. Ten per cent of public benefit is paid over from General Fund with all accrued interest on entire sum.

April 1. First series of bonds (10%) is paid and all accrued interest on bonds paid.

1. Set up all general ledger accounts required for above transactions in the Special Assessment Fund.
2. Take off monthly balance sheets to and including May 31.
3. Prepare a balance sheet of the fund, as of April 1 of second year.

PROBLEM 63

(Chapter XIV)

The estimated cost of an assessable improvement is $25,000.

A bond issue of $25,000 is authorized which is disposed of as follows:

Sold at par	$ 5 000
Sold at 104	5 000
Sold at 98	5 000
Turned over to contractor at par	10 000

The discount on bonds sold at 98 was paid the city in cash by the contractor.

The contract amounted to $23,100.	
Cash paid on contracts $13,100.	
General expenses paid $1,800.	
Assessments made: Against property owners	$20 500
Against city	4 500
Assessments collected: from property owners	3 000
Interest on same	1 230
Collected from city	450
Interest on same	270
An assessment was reduced	100
Refund of assessment collection made in error	25
Interest was paid on the bonds	1 500
Bonds amounting to $3,400 were retired.	

Set up the necessary general ledger accounts for the above transactions, close any accounts that are complete, and present a balance sheet of the fund.

PROBLEM 64

(Chapter XIV)

The cost of an authorized pavement was $26,817, distributed as follows:

	Total	*Initial Assessment Due January 1*	*Nine Deferred Instalments, Due January 1 of Succeeding Years, Each*
Property 1	$4 827	$570	$473
Property 2	3 692	443	361
Property 3	3 824	467	373
Property 4	2 968	322	294
Property 5	2 871	306	285
Public Benefit	8 635	922	857

Deferred instalments bear interest at the rate of 6% per annum from due date of initial assessment.

All property owners paid the initial assessment on January 1 of first year.

Instalments on Property 1 were paid as they fell due, with interest. The same was done as to Property 5.

On Property 2 the first and second instalments were paid as due, with interest, and the balance paid in full on the date of the third instalment.

Property 3 paid the first, second, and third instalments with interest, when due, and the balance in full on the date of the fourth.

Property 4 paid the entire amount in full on January 1 of first year.

The city paid all instalments with interest as they fell due.

1. Set up general ledger accounts required for the above transactions, and make entries therein. Also set up subsidiary assessment ledger accounts, and balance them with the general ledger control accounts.

2. The bond issue for the above improvement totaled $26,000, dated March 1, following date of initial assessment, due in ten years, at 6% interest payable annually. The bonds were sold at 104 flat. Bonds were in $500 denominations and were callable on any interest date when money was available in the Assessment Fund.

Determine how much was available to retire bonds on each interest date. Assuming that they are retired in accordance with this schedule, make all entries for payment of principal and interest, and show the condition of the fund at the end of the period.

PROBLEM 65

(Chapter XIV)

An audit of the accounts of a certain special assessment shows:

Cash on hand	$ 6 842
Assessments Outstanding	31 625
Assessed for Public Benefit	6 800
Assessable Authorization	1 642
Bonds Outstanding	45 000

Open accounts for the fund and enter the following transactions:

1. Additional Assessment	$ 1 700
2. Assessments Received	3 125
3. Interest on above	1 841
4. Received on Public Benefit	1 000
5. Interest Paid on Bonds	1 350
6. Bonds Paid	10 000

After completing the above entries, prepare a balance sheet of the fund.

PROBLEM 66

(Chapter XIV)

In some states the collections on each instalment are applicable to the payment of bonds in a comparable series only. For example, all collections on Instalment 4 are to be used in the payment of only Series 4 of the bond issue.

Refer to Problem 64. Assume that the $26,000 bond issue was in ten series of $2,600 each. There are five $500 bonds and one $100 bond in each series. The first series was due on March 1 of the second year, and so on annually for ten years. All facts regarding bonds not changed here remain the same. Note that the first bond retirement takes place on March 1 of the second year. Assume that when a bond is called it must be paid in full.

You are to audit the bond payments, as shown in the solution to Problem 64, and set up a complete schedule of transactions of the fund by instalments, showing bond payments as they should be under the instalment plan described here.

Why do some series end with a deficit?

PROBLEM 67

(Chapter XV)

Transactions of various trust funds are as follows:

Fund A:

1. Endowment gift of $50,000 cash.
2. Investments of $20,000 purchased at par.
3. Investments of $20,000 par purchased for $24,000.
4. Investments par $5,000, costing $6,000, sold for $6,200.
5. Income on investments $1,200; $200 applied to premium account.
6. Income expended $600.

Fund B: For permanent special endowment.

1. Received cash $6,000.
2. Purchased investments $5,994.
3. Received income $262.
4. Expended income $105.
5. Sold investments costing $2,999 for $3,150.

Fund C: For loans; income to provide annuity for donor.

1. Received cash $12,000.
2. Loans made $9,627.
3. Loans paid $5,235.

4. Received income $713.
5. Paid annuity $600.
6. Transferred from income to principal $100.
7. Loans made $5,885.

Fund D: For special expenditures.

1. Received cash $6,000.
2. Expended $3,640.

1. Set up General Ledger accounts necessary for above.
2. Prepare subsidiary Trust Fund Ledger accounts for above.
3. Make up
   (*a*) Statement of trust funds.
   (*b*) Trust funds balance sheet.

PROBLEM 68

(Chapter XV)

Transactions of various Trust Funds are as follows:

Fund A:

1. Gift for endowment, property valued at $50,000.
2. Part of property sold for cash $15,000.
3. Investments purchased $14,500.
4. Income received $2,800.
5. Investments costing $7,500 sold for $7,200.
6. Income expended $1,200.

Fund B: For endowment

1. Receipt of Fund, Cash $25,000.
2. Purchase of securities with expectation of resale, cost $16,000.
3. Purchase of securities to be held until maturity, cost $5,500, par $5,000.
4. Income received $500, of which $100 is applied to amortization of premuim.
5. Sale of securities costing $4,000 for $4,300.

Fund C:

1. Revolving fund gift of $10,000 cash.
2. Loans made from same $4,000.
3. Loans repaid $3,200.

Fund D:

1. Expendable gift of $5,000.
2. Expenditures from same $3,200.

Fund E: For permanent endowment.

1. Received securities of value of $100,000.
2. Received income $7,000.
3. Transferred income to General Fund.

1. Set up general ledger accounts necessary for above.
2. Prepare subsidiary trust fund ledger accounts for above.
3. Make up
   (a) Statement of trust funds.
   (b) Trust funds balance sheet.

PROBLEM 69

(Chapter XV)

Set up necessary subsidiary ledger accounts in proper form for the following transactions:

1. Cash endowment of	$25 000
2. Purchase of investments costing	21 000
Accrued interest	227
3. Income on investments	500
4. Sale of investments costing $5 450	5 600
Accrued interest	72
5. Expenditure of income	100
6. Interest received on cash balance	51
7. Receipt of cash for loan fund	20 000
8. Loans made from loan fund	6 500
9. Loans collected	3 200
10. Loans written off	100
11. Interest on loans received and added to principal of fund	175
12. Real estate acquired through foreclosure of endowment investment (included in Item 2), amounting to	10 000
13. Costs incident to foreclosure	200
14. Income from real estate, one-fourth of which is to be set aside as a reserve for depreciation on same	500

Also set up the general ledger accounts necessary, a balance sheet of these accounts, and statement of Trust Funds.

PROBLEM 70

(Chapter XV)

Trust funds transactions:

1. Receipt of bequest for endowment, cash	$24 162
2. Securities purchased as investment of endowment	
Par, $16 000; Cost	16 480
Plus accrued interest	146
Years to maturity, 10	
3. Receipt of fund for purpose of loans	10 000
4. Receipt of semi-annual income on securities	320

5. Purchase of mortgages for investment	$7 500
6. Receipt of gift to be expended	2 500
7. Receipt of interest on mortgage	150
8. Expenditure of endowment income	160
9. Loans made from loan fund	4 200
10. Sale of $4 000 par of securities for	4 200
and interest	50

At this date there were encumbrances of $680 against expendable funds balances.

Set up general ledger accounts for the foregoing transactions and present a balance sheet of the resulting accounts.

PROBLEM 71

(Chapter XV)

Balances in a municipality's trust and agency funds at the beginning of the year were:

	Cash	*Investments*
Firemen's Pension and Relief Fund	$ 9 942	$141 113
Policemen's Pension and Relief Fund	3 158	40 500
Golf Course Fund	10 687	3 000 *
Municipal Stadium Fund	697	3 000 *

* Loans Receivable.

Transactions during the year:

Firemen's Pension and Relief Fund	
1. Premiums collected	$ 7 586
2. Tax collected from members of department	4 857
3. Rentals received	343
4. Interest on bank balances	172
5. Interest on investments	5 540
6. Appropriation from General Fund	3 000
7. Sold investments, book value	3 350
8. Purchased investments	11 250
9. Administrative expenses	787
10. Paid accident and sick benefits	1 390
11. Paid pension benefits	16 596
Policemen's Pension and Relief Fund	
1. Fines and forfeits collected	6 530
2. Tax on members of department	4 224
3. Interest on bank balances	36
4. Interest on investments	1 373
5. Sold investments	10 500
6. Administrative expense	218

7. Paid accident and sick benefits	$ 4 045
8. Paid pension benefits	20 334
Golf Course Fund	
1. Sale of tickets	21 847
2. Rentals received	1 781
3. Interest on bank balances	140
4. Loans receivable collected	3 000
5. Salaries	12 840
6. Administrative expenses	11 743
7. Investments purchased	10 466
Municipal Stadium Fund	
1. Sale of tickets	8 398
2. Rentals received	1 212
3. Interest on bank balances	72
4. Loans receivable collected	3 000
5. Salaries	5 781
6. Administrative expenses	5 149

Prepare

(*a*) Statement of trust and agency funds.

(*b*) Summary statement of trust and agency funds cash operations for the year, showing receipts divided into revenue and non-revenue.

(*c*) Trust and agency funds balance sheet at the end of the year.

PROBLEM 72

(Chapter XV)

As auditor, you are presented with the following balance sheet prepared from the General Ledger of a trust fund. You find it is correct according to the ledger. You are able to determine that all cash received for endowment has been invested. The trustees of the fund follow the general policy of holding all security investments until their due date.

TRUST FUND

BALANCE SHEET—December 31

Assets	
Cash	$ 10 000
Investments—General	500 000
Investments—Pooled	100 000
Premiums (General Investments)	10 000
	$620 000
Liabilities	
Vouchers Payable (for disbursement of Income)	$ 2 000

Liabilities (Continued)		
Discounts (General Investments)		$ 5 000
Reserve for Loss and Gain on Pooled Investments		1 000
Fund Balance	$611 000	
Undistributed Pool Income	1 000	612 000
		$620 000

Do you consider the foregoing balance sheet correct? If not, you are to present a balance sheet prepared from the ledger after all proper adjustments have been made.

PROBLEM 73

(Chapter XVI)

1. An improvement project was estimated to cost $198,000.
2. A bond issue of $200,000 was authorized.
3. Contracts were entered into for $189,000.
4. Final settlement on these contracts amounted to $190,200.
5. Other expenses amounted to $7,600.
6. An advance of $50,000 cash was made from the General Fund which was later repaid after the bonds were sold.
7. The bonds were sold at 99.
8. All contracts and other accounts were paid in full.

Set up all accounts necessary to record correctly the foregoing transactions, and close all accounts which are complete.

PROBLEM 74

(Chapter XVI)

June 1. A bond fund of $400,000 was authorized for a certain public improvement. These bonds were marketed as follows:

> July 10. $200,000 at 101.
> July 20. $100,000 at par.
> August 25. $100,000 at 99½.

June 15. $2,000 was borrowed from the General Fund.
June 20. $1,900 for legal services paid.
June 25. Contracts amounting to $388,400 were authorized.
July 15. Repaid General Fund for loan of June 15.
July 25. $130,000 was invested in 3% U. S. bonds.
July 26. Made loan of $20,000 to Special Assessment Fund.
August 12. Additional contracts of $3,700 were authorized.
August 14. Stores $2,100 withdrawn from Stores Fund and used.

August 26. Sundry expenses $1,300 incurred on account.

August 27. The investments purchased on July 25 were sold for $131,000, including accrued interest.

August 28. Special Assessment Fund repaid loan of July 26.

August 31. All contracts and other bills were paid in full. Accounts closed and fund balance turned over to sinking fund.

1. Set up all general ledger bond fund accounts required, and make all entries therein for above transactions.
2. Show month-end balance sheets of the bond fund.
3. Draw up a statement of bond fund operations.

PROBLEM 75

(Chapter XVI)

Upon examining the accounts of the city of A you are presented with the following balance sheet which you are told was prepared from the accounts of the Bond Fund.

BOND FUND

BALANCE SHEET—December 31

Assets		
Cash for Uncompleted Projects		$ 99 000
Cash (excess on Completed Projects)		1 000
Discount on Bonds sold		1 000
Expenditures on Uncompleted Work		40 000
Completed Projects		70 000
Encumbrances		20 000
Total Assets		$231 000
Liabilities		
Accounts Payable		$ 60 000
Bonds Payable	$200 000	
Less Unissued Bonds	50 000	150 000
Premium on Bonds Sold		1 000
Reserve for Encumbrances		20 000
Total Liabilities		$231 000

The exact proceeds of the bond issues are considered available for the respective projects.

If you are convinced that some errors exist, prepare a proper balance sheet.

PROBLEM 76

(Chapter XVII)

A sinking fund of January 1 consisted of

Cash	$ 75 911
Investments—par	4 051 200

Summary of transactions for the year:

1. Securities, par, $188,000, sold, with interest $5,120, premiums $1,298, and discounts $200.
2. Bonds, par, $1,600,000, issued and a premium of $3,774 realized upon the sale thereof which was deposited in the Sinking Fund.
3. Securities, par, $25,200, held by the Sinking Fund were called at par.
4. Securities, par, $504,000, purchased with interest $5,596, premium $3,193, and discount $1,642.
5. Interest received on securities $203,825; on daily bank balances $1,532.
6. Received an appropriation of the General Fund $350,000.

Investments are carried on the books at par, and premium and discount carried to Surplus account. At the close of the year, the net increase in surplus is carried to Reserve for Bond Retirement.

Required:

(*a*) Balance sheet of the sinking fund at end of year.
(*b*) Statement of operations of the Sinking Fund for the year.

PROBLEM 77

(Chapter XVII)

The requirements of a sinking fund for a given calendar year included $20,000 principal and $10,000 interest. Interest is payable semi-annually on July 1 and January 1. The amount of a special tax levy is fixed so as to allow for the income which can be secured on the investments of the fund and which is applied to meet the annual requirements. The money from the tax levy is available on July 1, and permanent investments of it can be made at 5% and temporary investments at 4%.

Assume that the tax money is available in full on July 1; that the semi-annual interest payments are made when due; that the money not required to meet interest during the year is invested on a perma-

nent basis at 5%, the income of which is received semi-annually on July 1 and January 1; that money temporarily not needed is invested at 4% under the same plan until needed.

Determine the approximate amount of tax levy necessary for the first year. Carry out the transactions described above, showing the Balance Sheet at the end of the year.

PROBLEM 78

(Chapter XVII)

A bond issue of \$500,000 is floated. It is due twenty years hence. It bears 3% interest which is to be paid through a special revenue fund. The indenture requires that the principal be accumulated through a sinking fund on an actuarial basis at $2\frac{1}{2}$%. Any deficiencies are to be made up from general fund appropriations.

Show the journal entry to set up the requirements for the first year. The amount of an annuity of \$1.00 at $2\frac{1}{2}$% for 20 years is \$25.54465761.

The required amount is placed in the sinking fund at the end of the first year. Show journal entry.

During the second year the fund earns $2\frac{1}{4}$%. Show the journal entry for the deficiency.

PROBLEM 79

(Chapter XVII)

The account balances for the Sinking Fund of the city of Z for December 31, 1949, are

Accrued Interest Purchased	\$ 876
Matured Bonds	49 900
Revenue Loans (to other funds)	86 405
Commission Due to Fiscal Agency	78
Cash (overdraft)	87 210
Matured Coupons	13 085
Due to Other Funds	462
Deposit in Fiscal Agency	63 063
Sinking Fund Reserve	238 062
Investments	236 453
Due from Other Funds	2 000

During the year the following transactions took place.

1. The budgeted requirements for the year were \$780,000.
2. Taxes levied and collected totaled \$739,835.

3. Investments amounting to $39,053 were sold on which interest of $897 had accrued. Of the interest sold, the city had previously purchased $397 of it.

4. The Sinking Fund received the following amounts from other funds:

(*a*) $2,000 which had been loaned to other funds the previous year.

(*b*) $371 which is a temporary loan from other funds.

(*c*) $29,905 which is the annual payment to this fund from the general fund for bond retirement.

(*d*) $76,986 which represented loans made to other funds the previous year to cover a shortage in revenue.

5. Bonds and coupons matured this year are $591,298 and $144,845, respectively.

6. Investments purchased totaled $54,340, and accrued interest on the same $520.

7. Bond payments amounted to $604,198 while $149,150 was paid on coupons on all outstanding bonds.

8. Charges to this fund for commission expense amounted to $746 (unpaid).

9. Deposits withdrawn from the Fiscal Agency totaled $17,283.

10. The balance due to the Fiscal Agency for commissions was paid.

11. A cash refund of $3,423 was made to the General Fund because of an overpayment to this fund for bond retirement.

12. $13,741 accrued as interest on investments for this period; of this amount $9,640 was collected.

13. Also, $999 accrued interest on investments was collected which had been previously purchased by the city.

When bonds and coupons mature, they are then set up as a liability on the sinking fund accounts.

(*a*) Set up General Ledger accounts and enter the year's transactions.

(*b*) Prepare a balance sheet as of December 31, 1949, and a statement of receipts and disbursements.

PROBLEM 80

(Chapter XVII)

The assets of the Sinking Fund of the city of T on January 1, 1949, were cash $5,104 and Investments $230,100.

1. The budgeted requirement of the Sinking Fund for the year is $50,000.

The following transactions took place during the year:

2. Investments sold $72,000.
3. Taxes levied and collected $35,310.
4. Investments purchased $119,000 with accrued interest of $1,485.
5. Interest on bank balances $356.
6. Income from investments $14,010 including accrued interest purchased as per Item 4.

1. Set up general ledger accounts.
2. Prepare a Balance Sheet as of the end of the year, and a statement of sinking fund operations for the year.

PROBLEM 81

(Chapters XVII and XVIII)

A summary of transactions of sinking funds for the stated fiscal year follows.

The balances of the various funds on July 1, consisted of the cash balances shown and the balances of investments as shown, these amounts representing in total the *surplus* of the respective funds.

In addition to the amount received from the General Fund there was due the Canal Sinking Fund from the General Fund June 30, the sum of $146,436.

The sinking fund "requirements" for the year consisted of the amounts shown as expended for "interest on funded debt" and "redemption of debt."

1. Set up general ledger accounts required for each sinking fund for the year.
2. Prepare a summary sinking fund balance sheet as of June 30.
3. Set up general ledger accounts required for funded debt, show transactions therein, and make a statement of bonded debt as of June 30 (end of fiscal year).

STATEMENT OF CASH TRANSACTIONS OF SINKING FUNDS FOR THE FISCAL YEAR ENDED JUNE 30

RECEIPTS

	Cash balances July 1	General Fund Contributions: For amortization of debt	General Fund Contributions: For interest	Contributions from counties	Interest from investments, etc.	Investments matured, etc.
A—Canal Debt Sinking Fund	$2 406 453	$848 802	$6 182 300		$2 253 736	$2 339 773
B—Highway Debt Sinking Fund	2 797 593	400 000	3 872 100	$72 258	1 370 759	528 705
C—Palisades Interstate Park Debt Sinking Fund	232 123		200 000		45 469	3 720
D—Forest Preserve Debt Sinking Fund	316 417	100 000	345 000		133 144	1 000
Grand Totals All Sinking Funds	$5 752 586	$1 348 802	$10 599 400	$72 258	$3 803 108	$2 873 198

EXPENDITURES

	Interest on funded debt	Investments purchased	Premium on investments purchased	Accrued interest on investments purchased	Redemption of debt	Miscellaneous	Cash balances June 30
A—	$6 182 300	$1 913 123	$ 9 738		$2 136 000	$12	$3 789 890
B—	4 300 000	3 535 644	187 565	$28 913	400 000	55	589 238
C—	200 000	128 397	3 051	2 381			147 483
D—	345 000	320 500	4 450	1 432	100 000		124 178
Totals	$11 027 300	$5 897 664	$204 804	$32 726	$2 636 000	$67	$4 650 789

STATEMENT OF INVESTMENT TRANSACTIONS OF SINKING FUNDS FOR THE FISCAL YEAR ENDED JUNE 30

	Balances of Investments July 1, Par Value	Bonds (at Cost)	Discount on Bonds Purchased	Investments Sold or Matured	Balances of Investments June 30
Canal Debt Sinking Fund	$48 898 832	$1 913 123		$2 339 773	$48 472 182
Highway Debt Sinking Fund	25 377 675	3 535 644	$39 929	528 705	28 424 543
Palisades Interstate Park Debt Sinking Fund	812 920	128 397		3 720	937 597
Forest Preserve Debt Sinking Fund	329 100	320 500		1 000	648 600
Grand Totals of Sinking Funds	$75 418 527	$5 897 664	$39 929	$2 873 198	$78 482 922

Outstanding Debt	*Canal*	*Highway*	*Palisades*	*Forest Preserve*
June 30 (beginning of year) (No additions during the year)	$154 664 000	$99 600 000	$5 000 000	$7 400 000

PROBLEM 82

(Chapter XVII)

1. The balances in a sinking fund at the beginning of a fiscal year were:

Cash	$46 100	
Taxes receivable	71 000	
Investments (par)	80 000	
Unamortized premium and discount	350	(debit balance)
Reserve for uncollectible taxes	14 000	
Reserve for bond retirements	182 000	

2. The trust indenture provides for the setting aside of $28,000 toward payment of the bonds during the current year.

3. A tax levy of $27,000 is made.

4. Taxes of $46,000 are collected.

5. Taxes of $1,000 are written off.

6. Bonds to the amount of $40,000 are to be paid during the year. Suitable authorization is made for this, and the payment is made.

7. Investments of $25,000 par are purchased with accrued interest $600 and premium $500.

8. Investments of $5,000 par are purchased at a discount of 2%.

9. Income of $1,900 on investments is received, including $200 relating to accrued interest on purchases, $100 to unamortized discounts, and $100 to unamortized premiums.

10. Investments of par $10,000, having unamortized discount $50, are called at par.

Set up the accounts necessary to record the foregoing, close them as of the end of the fiscal year, and present a balance sheet after closing.

PROBLEM 83

(Chapter XVIII)

A state authorized a bond issue to provide funds for building hard roads.

The amount of bonds authorized for issue during a biennium beginning July 1, is $30,000,000. To January 1, following, $6,000,000 of bonds had been sold, yielding this sum.

Contracts are let as rapidly as bonds are sold for the total amount available. On January 1, there was a cash balance of $893,309.94 in the bond fund, all vouchers payable on contracts having been liquidated at that date.

Interest and principal of these bonds are payable from a special fund arising from receipts from automobile licenses. The estimated revenue from licenses for the biennium was $20,000,000. The legislative appropriations payable out of this fund for the biennium, including interest on hard road bonds, total $12,025,632.56. No bonds mature during this biennium.

The cash balance in the license fund July 1 was $4,647,821.93. The receipts from licenses to January 1, following, were $2,321,645. The cash balance in the fund on that date, warrants having been issued for all *accounts payable,* was $2,963,380.08.

Set up the general ledger accounts necessary to handle these matters, make summary entries of all transactions to January 1, and show fund balance sheets as of that date.

PROBLEM 84

(Chapter XVIII)

A general obligation bond issue for construction of a bridge was authorized amounting to $500,000. The amount realized from the sale of bonds was $505,000. The contract and other expenditures amount to $502,000 and the balance remaining in the Bond Fund was turned over to a sinking fund for the retirement of the bonds.

The terms of the bond issue required the payment of 10% annually into a sinking fund for retirement. The receipts of the Sinking Fund included the balance left over from the sale of bonds as above stated, together with the sum of $12,000 received from the sale of certain property purchased out of the proceeds of the bonds but later disposed of. The cost of this property was $10,000. The balance required for the Sinking Fund for the first year was covered by a special tax levy. The sum of $10,000 on hand in the Sinking Fund was used to purchase and retire outstanding bonds.

Set up all General Ledger accounts required by the above transactions and present a balance sheet of all open accounts at conclusion. (Disregard interest on bonds.)

PROBLEM 85

(Chapter XVIII)

Bonds outstanding, January 1	
General bonds	$28 440 000
Water works bonds	7 031 000
Permanent improvement revolving fund bonds	7 400 000

Bonds matured in year following:	
General bonds	$ 533 000
Water works serial bonds	68 000
Bonds issued in year following:	
General bonds	1 600 000

The General Bonds outstanding on December 31 include $695,000 of Inter-City Bridge Bonds, which are self-liquidating.

Sinking fund balances, December 31 (cash and securities):	
General Sinking Fund	$4 685 316
Water Department Sinking Fund	971 183
General improvement bonds authorized but unissued	400 000

The statutory limit for general bonds is $24,520,771.

Required:

Statement of Bonded Debt as of December 31. Show the relation between the general bonded debt at that time and the bonding limit.

PROBLEM 86

(Chapter XVIII)

Bonds Authorized on January 1, 1949:	
Permanent improvement	$1 860 000
Park	805 000
Refunding	2 000 000
General	2 000 000
Bonds Unissued on January 1, 1949:	
Permanent improvement	$1 000 000
Refunding	500 000
General	31 000

There was a total of $400,000 worth of bonds issued during the year. Of this amount $250,000 was issued for permanent improvement purposes, $100,000 for refunding, and $50,000 general.

The city redeemed during 1949, $280,000 permanent improvement bonds, $15,000 park bonds, $25,000 refunding bonds, and $150,000 general bonds.

On December 31, 1949, there was $30,000 in the Sinking Fund to be applied to 1950 Park Bond Retirements.

The city is allowed by the state bonds amounting to $1,805,000 without any limitation. The limitation on additional debt is $5,459,-345.35.

From the above information prepare:

1. Statement of bonded debt as of December 31, 1949, showing details of authorization, issuance, redemption, and net bonded debt.
2. Show the legal debt margin as of December 31, 1949.

PROBLEM 87

(Chapter XVIII)

Balances in the accounts of the General Fixed Assets and Liabilities section of a balance sheet on January 1, 1949, were as follows:

Land	$2 412 849
Buildings	1 590 810
Improvements other than buildings	11 023 453
Equipment	691 299
Improvements in progress	198 460
Bonds payable	7 200 000

Transactions during the year affecting this section were as follows:

General fund paid city's share of special assessments to Special Assessment Fund	$ 42 805
Equipment costing $5 740 was sold for	6 150
Condemnation awards of land	10 710
Expenditures during the year for improvements in progress	136 591
Equipment worn out and written off	25 656
Bonds were paid from Sinking Fund	150 000
Tax liens on land foreclosed	52 897
Received donation of a library building:	
Appraised value of land	5 200
Appraised value of building	25 000
Improvements in progress completed:	
Buildings	74 189
Improvements other than buildings	86 100
Equipment	16 461
Tax sales of land previously acquired by foreclosure	31 432

Prepare:

1. Statement of changes in general fixed assets by individual type for the year 1949.
2. Balance sheet of general fixed assets and liabilities, December 31, 1949.

PROBLEM 88

(Chapter XIX)

The following balances are taken from the General Ledger of a municipality:

Accounts Payable—Corporate Fund	$ 8 691
Accounts Receivable—Corporate Fund	3 256
Assessments Receivable	108 632
Bonds Payable—Special Assessments	117 800
Cash—Corporate Fund	2 872
Cash—Firemen's Pension Fund	4 518
Cash—Sinking Fund	32 255
Cash—Special Assessment Fund	16 096
Equipment	99 220
General Obligation Bonds Payable (Capital purposes)	101 000
Land and Buildings	207 794
Reserve—Corporate Fund	3 835
Reserve—Firemen's Pension Fund	35
Reserve for Retirement of Bonds	35 800
Uncollected Taxes—Corporate Fund	192 537
Uncollected Taxes—Firemen's Pension Fund	2 744
Uncollected Taxes—Sinking Fund	5 050
Warrants Outstanding—Corporate Fund	191 750
Warrants Outstanding—Special Assessment Fund	3 755

Rearrange the above in the form of a balance sheet to show the surplus or deficit of each *fund* and *account group*.

PROBLEM 89

(Chapter XIX)

The following figures relating to current funds are taken from a municipal balance sheet:

Current Assets			
Cash on Hand and in Banks			$ 84 616
Taxes and Accounts Receivable:			
General Taxes		$ 6 630	
Less: Reserve for Delinquent Taxes		6 630	
Special Assessments			
Rolls	$462 546		
Tax Deeds and Certificates	9 610		
Returned Delinquent to County	42 891		
		515 048	

Due from Electric Consumers	$15 291	
Due from Water Consumers	11 800	
Due from Sundry Persons for Collecting Garbage, Street Repairs, Etc.	3 562	
Accrued Interest on Bonds Owned (Electric Fund)	633	$546 336
Bond Investments:		
Electric Depreciation Fund	$20 460	
Electric Fund	25 000	45 460
Inventories:		
Materials—Street Department	$ 57	
Fuel in Yard at Electric Plant	1 250	1 308
Total		$677 720
Current Liabilities:		
Special Assessments:		
Time Warrants Outstanding	$ 114	
Bonds Outstanding	559 200	559 314
Special Deposits:		
Electric Department	$2 437	
Water Department	5 118	7 556
Accrued Interest on Filtration Plant Bonds (Water Fund)		1 050
Current Surplus:		
Special Assessment Fund	$58 164	
General Fund	23 959	
Electric Fund	40 623	
Water Fund (Deficit)	(88 258)	
Electric Depreciation Fund	48 773	
Water Depreciation Fund	26 537	109 800
Total		$677 720

Restate the above to show correctly the resources and obligations of each fund.

PROBLEM 90

(Chapter XIX)

The following figures are taken from a municipal trial balance:

Amounts Due City	
Revenue Fund	$ 4 527 817
Capital Fund	5 326 231
Trust Fund	30 879
Cash	
Revenue Fund	4 687 192
Capital Fund	7 496 728

Sinking Fund	$ 1 002 486
Trust Fund	466 941
Cash—Held by Commissioners of Rapid Transit Fund (Trust Fund)	21 465
Cash—Held by Commissioners to pay unclaimed matured loans (Sinking Fund)	21 250
Deferred Charges	
Sinking Fund	28 252
Trust Fund	11 792
Deferred Credits	
Revenue Fund	721 460
Sinking Fund	21
Funded Capital Debt outstanding	167 500 550
Investments	
Sinking Fund	32 779 300
Trust Fund	1 595 400
Invoices Payable	
Revenue Fund	351 910
Capital Fund	25 707
Land, Improvements and Equipment	376 152 956
Mandamuses Payable	
Revenue Fund	271 389
Capital Fund	580 959
Mortgages Payable	
Capital Fund	407 625
Other liabilities	
Revenue Fund	179 880
Capital Fund	8 305
Sinking Fund	33 329
Trust Fund	487 734
Stores, Postage and Transportation (Revenue Fund)	1 290 048
Surplus	261 691 319
Temporary Loan	
Revenue Fund	800 000
Unclaimed Matured Loans (Sinking Fund)	21 250
Vouchers Audited	
Revenue Fund	1 722 405
Capital Fund	416 395
Trust Fund	4 022

Warrants Payable	
Revenue Fund	$197 067
Capital Fund	16 510
Trust Fund	900

Prepare fund balance sheets in proper form.

PROBLEM 91

(Chapter XIX)

Having been called upon to examine the accounts of a certain city, you secure from the General Ledger the following trial balance:

Cash	$ 22 620	
Accounts Receivable	61 900	
Stores and Supplies	154 241	
Property	3 225 000	
Investments	162 000	
Accounts Payable		$ 4 200
Bonded Indebtedness		265 000
Surplus		3 356 561
	$3 625 761	$3 625 761

On inquiry you find the following additional facts:

Included in the "accounts receivable" are assessments for local improvements amounting to $28,600.

The remainder of the "accounts receivable" are for general taxes which are considered 85% collectible.

The inventory of property is on an estimated present value; the original cost was $2,625,000.

The item of investments consists of investments of trust funds at cost, the total amount of these funds being $164,000, the balance being on hand in cash.

The "indebtedness" includes

$ 10 000	current loans
30 000	assessment bonds
225 000	capital project bonds

An audit of the assessment records indicates that there is $1,400 on hand included under "cash" in the preceding trial balance not yet applied to retirement of bonds.

There is on hand the sum of $8,000 from a bond issue for capital purposes which is unappropriated.

The accounts of a sinking fund have not been included above. There are investments of a par value of $80,000 costing $78,500; cash $1,800

including $300 received from interest on investments. There is due the Sinking Fund from the General Fund $2,000.

Recast the accounts as they should be and present balance sheets in proper form.

PROBLEM 92

(Chapter XIX)

The following data were taken from the trial balance of a municipality on June 30, 1949:

Accounts and Notes Payable	
General Fund	$ 844 546
Special Assessment Fund	1 605
Trust Fund	159 582
Water Fund	314 602
Accounts Receivable	
General Fund	1 011 941
Trust Fund	262 498
Water Fund	639 961
Accrued Interest Payable	
General Fund	30 412
Water Fund	852 753
Appropriations	718 534
Bonds Authorized and Unissued	8 276 000
Bond Interest Payable	
General Fund	982 526
Bonds Payable	
General Fund	7 469 600
Water Fund	38 325 000
Capital Fund	46 572 000
Buildings (General)	132 889 787
Consumers' Deposits	48 818
Cash	
General Fund	6 214 750
Bond Fund	1 908 187
Special Assessment Fund	24 377
Trust Fund	1 440 485
Water Fund	4 507 480
Contracts Payable (Bond Fund)	97 706
Deferred Charges (Water Fund)	493 980
Deferred Credits (Water Fund)	105 525
Due from Other Funds	
General Fund	1 968 702
Bond Fund	7 919
Trust Fund	164 281
Water Fund	51 872

Due to Other Funds	
General Fund	$ 2 146 098
Bond Fund	23 183
Special Assessment Fund	392
Trust Fund	14 308
Water Fund	8 792
Equipment (General)	12 256 676
Improvements in Progress (General)	492 556
Investments (Trust Fund)	14 455 444
Land (General)	44 127 012
Relief Expenditures Deferred	7 966 552
Reserve for Depreciation of Property (Water Fund)	259 272
Reserve for Encumbrances	
General Fund	1 059 601
Bond Fund	232 223
Reserve for Taxes Collected in Advance	1 712 306
Reserve for Uncollectible Taxes	746 023
Special Assessments Receivable	8
Supplies (General Fund)	250 030
Taxes Receivable	2 865 872
Temporary Loans Payable (General Fund)	1 466 552
Unamortized Premium on investments purchased	21 663
Water Fund Property	47 265 863
Work in Progress (General Fund)	483 301

$1,053,530 of the bond fund balance has been appropriated for construction purposes.

Prepare a balance sheet for all funds in the proper form, showing the amount of surplus or deficit in each fund.

PROBLEM 93

(Chapter XIX)

1. Accounts Payable totaled $2,876,856; of this amount the General Fund owed $2,166,362; Trust Fund, $676,888; and the Sinking Fund, $33,606.

2. Bonds Payable issued against the permanent property amounted to $555,154,500.

3. The balance of the Reserve for Retirement of Bonds in the Sinking Fund was $132,967,376.

4. Total Taxes Receivable amounted to $38,953,953; $24,002,958 was for years prior to 1949 against which a reserve of $863,935 is carried; and $14,950,995 was for 1949.

5. Accounts Receivable, amounting to $61,839, belonged to the General Fund. A reserve for uncollectibles of $6,183 was set up.

6. The Trust Fund owned investments worth $474,400; and the investments owned by the Sinking Fund were worth $127,099,000.

7. Warrants Payable had been issued by the General Fund for $4,909,670 and by the Trust Fund for $84,718.

8. The value of the land owned by the city amounted to $117,-976,189.

9. The Reserve for Encumbrances in the General Fund amounted to $483,475.

10. The estimated revenue as yet unrealized is $11,335,028.

11. Improvements have been made, costing $40,889,598.

12. A reserve of $7,160,000 for the temporary loans payable has been set up in the General Fund.

13. The total surplus invested in the fixed assets amounts to $245,-169,109.

14. A debit balance of $3,118,305 appears in the accounts of the Sinking Fund for the sinking fund requirements.

15. Stores on hand in the General Fund amounted to $528,120.

16. The city has a mortgage payable of $210,515 outstanding against some of its permanent property.

17. The tax receiver still retains $7,598, which is to be turned over to the General Fund.

18. The General Fund had temporary loans payable outstanding, amounting to $9,160,000.

19. The balance in the Trust Fund amounted to $625,472.

20. Of the permanent property recorded on the books, the buildings have a value of $641,668,337.

21. The surplus of the General Fund amounted to $29,844,282, of which $406,546 has been appropriated, with the remainder free and available for appropriation.

22. Total cash of all funds amounted to $7,403,718.

From the foregoing information taken from the books of the city of P as of September 30, 1949, prepare balance sheets covering all funds as of that date.

PROBLEM 94

(Chapter XIX)

From the data in Problem 27 prepare statements of expenditures in proper form for the Corporate Fund.

PROBLEM 95

(Chapter XIX)

Refer to Problem 28:

1. Open up a suitable expenditure analysis record and post the transactions of the month to it.
2. Prepare suitable statements of expenditures for the month.

PROBLEM 96

(Chapter XIX)

Balances in the accounts of a city on December 31, 1949, were as follows:

General Fund:	
Cash	$ 133 695
Accounts Receivable	378 613
Taxes Receivable—Delinquent	791 942
Reserve for Uncollectible Taxes	197 968
Inventories of Materials and Supplies	55 943
Accounts Payable	660 659
Interest Payable	25 591
Special Assessment Fund:	
Cash	37 933 *
Assessments Receivable	244 218
Bonds Payable	222 638
Trust Funds:	
Cash	1 688 788
Investments	5 254
Warrants Outstanding	26 860
Sinking Fund:	
Cash	149 639
Investments (par)	833 570
Premium	2 769
Surplus	6 633
Fixed Assets and Liabilities:	
Land	349 747
Buildings	2 864 921
Equipment	598 673
Improvements other than Buildings	4 136 500
Bonds Payable	3 423 000

* Overdraft.

Summary of Transactions for the year 1950:

General Fund:	
General property tax levy	$ 2 822 000
General property taxes collected	2 373 632
Delinquent taxes collected	243 150
All taxes not collected are considered delinquent	
Purchases of materials and supplies	145 681
Materials and supplies used	146 041
Interest paid	129 706
Interest expense for the year	126 795
Other Revenue accrued	980 786
Other Revenue collected	884 727
Warrants issued against Accounts Payable, including disbursement of bond proceeds	3 469 687
Vouchers approved	2 720 678
Bonds were sold at par (for acquisition of fixed property)	630 000
Reserve for Uncollectible Taxes is to be 25% of the Delinquent Taxes Receivable	
Transferred to Sinking Fund	286 578
Purchased fixed property as follows:	
Equipment	55 681
Buildings	125 888
Improvements other than Buildings	160 607
Equipment worn out and written off	20 932
Special Assessment Fund:	
Assessments Receivable collected	5 692
Bonds paid	15 535
Rebates of assessments	1 172
Trust Funds:	
Investments sold	4 254
Total receipts from all other sources	25 889 248
Warrants paid	26 114 237
Warrants issued	26 130 902
Sinking Fund:	
Investments matured and were paid	134 535
Investments sold (par)	118 000
Sinking fund requirements for the year	320 035
Investments purchased par with premium of $596.	67 000
Premium written off during the year	793
Interest on investments	34 379
Bonds paid	400 000

Prepare a comparative balance sheet for the years 1949 and 1950 for all funds involved.

PROBLEM 97

(General)

Trial balance of the General Fund on January 1, 1949:

	Dr.	*Cr.*
Cash	$ 627 332	
Petty cash	4 825	
Taxes—delinquent	1 740 606	
Inventory—supplies, etc.	159 234	
Budget requirements	29 000	
Accounts payable		$ 178 145
Notes payable		29 000
Appropriations		333 363
Reserve for delinquent taxes		1 740 606
Reserve for petty cash		4 825
Reserve for inventory		159 234
Surplus		115 824
	$2 560 997	$2 560 997

Tax levy $9,138,494; estimated shrinkage	$ 220 000	
Estimated miscellaneous revenue	1 562 600	
Estimated departmental earnings	1 459 588	
Budget appropriations, 1949	11 940 682	
Receipts for the year:		
Current tax levy		$7 809 062
Delinquent taxes		312 993
Miscellaneous revenues		2 508 782
Departmental revenues		657 654
Interdepartment revenues		177 424

"Miscellaneous revenues" include: a transfer item of $150; a revenue loan of $1,000,000 which was retired later in the year; refunds of $6,872; the sale of materials and supplies costing $5,198 at cost to "Special Funds" for cash; the proceeds of notes sold in 1949 to cover requirements of $174,221 which are to be met by revenues of 1950; but they do not include miscellaneous surplus receipts of $5,148.

Total vouchers audited in 1949 were $12,093,276. Included were: reimbursements of petty cash $3,278, the fund having disbursed $3,238; the purchase of materials and supplies $126,112, of which $84,348 were consumed; and the redemption of $29,000 of notes which had been sold in 1948 to cover requirements paid in that year to be met by revenues of 1949.

Accounts payable, December 31, 1949	$157 243
Reappropriations to 1950	177 690

All reserves are maintained to the full extent of the resources they cover.

Delinquent taxes written off in 1949	$220 203

Required:

1. Statement of general fund revenue, expenditure, and surplus for 1949.
2. Balance sheet of the fund, December 31, 1949.

PROBLEM 98

(General)

A statement of disbursements of a county for a fiscal year shows the following figures:

Board of Supervisors	$ 14 100
Circuit Court	12 600
County Court	9 700
Sheriff	1 120
Superintendent of Schools	4 600
County Auditor	11 200
County Treasurer	12 400
County Home	37 400
County Sanitarium	21 800
Highway Maintenance	31 600
Highway Construction	473 000
Gift (to provide income for maintenance of a ward in the Sanitarium) *invested*	10 000
Paid to County Home for produce raised by it and furnished County Sanitarium (turned in as receipts by County Home)	1 642
Paid to cities for city taxes collected by County Treasurer	374 200
Paid to State for state taxes collected by County Treasurer	143 037
Refunds for taxes collected	1 620

On inquiry you find that the following items of county expense were paid by the following officers out of receipts of their various offices and therefore not included above:

Sheriff	$5 800
County Recorder	5 100
Circuit Clerk	6 700

On examination you find that the disbursements listed above include the following amounts for bills of previous years:

County Home	$480
Sanitarium	210

You further find that bills in the following amounts were audited and payable at the end of the year but not paid until the following year:

Circuit Court	$ 420
Highway maintenance	1 640

Make a working statement to show the true expenditures of the county for the year.

PROBLEM 99

(General)

You are called upon by a city to reorganize its accounts and business procedure. The only books of account in use are a Cash Day Book and a Warrant Register. From various sources you secure the following information:

1. The cash balance at date (which is the beginning of a fiscal year) is $10,326, including $2,846 collected on assessments and $6,481 in a firemen's pension fund.
2. Delinquent taxes said to be good amount to $2,627.
3. Vouchers on hand approved for payment amount to $1,681.
4. Assessments unpaid amount to $4,762.
5. Bonds for local improvements (assessable) unpaid are $7,500.
6. Funded debt for public improvements balance $125,000.
7. Cost of all public property owned by city $396,842.

The sources of revenue are:

1. Licenses.
2. Fines.
3. Fees.
4. General tax levy.
5. Special library tax.
6. Firemen's pension fund tax.

The departments are:

General Government.
Public Safety.
Public Works.
Public Health.
Library (supported exclusively by special tax).

You are to make a report to the city council, outlining a proper system of accounts and business procedure, including:

1. Exhibit of accounts to be opened at date and balance sheet.
2. Outline of budget form and procedure for the city.
3. Schedule of all financial and accounting forms necessary except as to taxes and assessments and concise instructions as to use and as to closing.
4. Skeleton general ledger accounts required and description of entries, including steps in closing at end of year.
5. Outlines of monthly report schedules.

PROBLEM 100

(General)

You are called in to advise concerning the finances of a certain city and are given a trial balance at the close of the year taken from the city's books. The city council is concerned that, although the books show that the revenue for the year has exceeded the expense, it is unable to pay its bills by a considerable sum.

Cash	$ 3 460	
Accounts Receivable	2 420	
Taxes Receivable, current year's levy	21 400	
Tax Anticipation Notes Payable		$ 15 000
Accounts Payable		22 600
Expense	152 500	
Revenue		155 600
City Property	2 164 000	
Bonds Payable		320 000
Surplus, beginning of year		1 830 580
	$2 343 780	$2 343 780

In the course of your examination you secure the following additional information:

1. Equipment was purchased during year, debited to City Property account, $12,600; and credited to Cash.

2. Total tax levy, $121,500, all of which was credited to Revenue. Records of previous years indicate an average loss of 6% in collection.

3. Bonds paid during year, $20,000, the entry being a debit to Bonds Payable and a credit to Cash. No bonds were issued during the year.

4. During the year the City Council authorized a central storeroom with an inventory not to exceed $10,000. Purchases amounting to $9,150 were made and charged to Expense. Stores issued to departments amounted to $4,625, for which no entry was made.

5. The sum of $3,200 is due from the state on the city's share of gasoline taxes to apply on expenditures made for street repairs.

6. The tax levy includes a special levy for the city library, $4,200, of which $3,600 has been collected and $3,125 paid out and charged to Expense.

7. At the close of the year there were orders and contracts outstanding to the amount of $2,180.

8. Included in the items charged to Expense are bills of $1,869 on account of the previous year.

9. Also included is a petty cash advance of $300.

10. Equipment costing $6,800 was removed from service during the year.

You are asked to prepare statements showing the following for the General Fund unless otherwise specified:

1. Current surplus or deficit at beginning of year.
2. Correct amount of revenues for the year.
3. Correct expenditures for the year.
4. Current surplus or deficit at end of year.
5. Investment in fixed assets.
6. Balance sheet at end of year.

PROBLEM 101

(General)

The city of X classifies its accounts under four different funds. On January 1, 1949, the balances in the accounts of these various funds were as follows:

General Fund:	
Cash	$ 10 162
1948 Taxes Receivable	15 676
Accounts Receivable	2 325
Stores	9 641
Permanent Property (at cost)	3 154 695
	$3 192 499
Accounts Payable	$ 2 826
Reserve for Uncollectible Taxes	10 200
Reserve for Orders and Contracts	3 286
Reserve for Stores	10 000
Current Surplus	11 492
Bonds Payable	250 000
Capital Surplus	2 904 695
	$3 192 499

Water Fund:

Cash	$ 6 126
Accounts Receivable	7 645
Stores	13 826
Investments of Replacement Fund	21 700
Permanent Property	212 604
	$261 901
Accounts Payable	$ 4 324
Customers Deposits	1 500
Replacement Fund Reserve	21 700
Operating Surplus	21 773
Bonds Payable	60 000
Capital Surplus	152 604
	$261 901

Assessment Fund (All are for Improvement 50):

Cash	$ 4 653
Assessments Receivable	46 829
Delinquent Assessments Receivable	4 826
Public Benefit Receivable	5 632
	$61 940
Bonds Payable	$60 000
Surplus	1 940
	$61 940

Trust Fund:

Cash	$ 3 216
Investments	94 425
	$97 641
Cemetery Endowment Fund Reserve	$60 000
Policemen's Pension Fund Reserve	18 691
Firemen's Pension Fund Reserve	16 824
Cemetery Maintenance Fund Reserve	2 126
	$97 641

The transactions of the city for the year 1949 were as follows:

General Fund:

1. Budget estimates of revenue and appropriations of same:	
Estimated revenue from taxes	$225 000
Estimated revenue from miscellaneous sources	62 000
Appropriations	276 000
2. Tax levy, $247,660; estimated losses and deductions, 10%	
3. Anticipation notes against 1949 taxes sold at par for cash	150 000

4. Taxes received, 1948	$ 3 247
1949	186 822
5. Miscellaneous revenues received in cash	42 865
6. Miscellaneous revenues invoiced as Accounts Receivable	21 460
7. Accounts Receivable collected	20 240
8. Orders and contracts issued against appropriations (estimated cost)	53 962
9. Invoices audited, $3,175, covering orders and contracts outstanding at beginning of year	
10. Invoices audited, $48,946, against $48,120 of orders and contracts issued this year	
11. Invoices audited for purchase of stores	51 446
12. Vouchers audited for the following items not covered by orders and contracts:	
(*a*) Payrolls, $136,897, of which $4,160 goes to Policemen's Pension Fund and $2,740 to Firemen's Pension Fund.	
(*b*) Payment of tax anticipation notes, $125,000, and interest, $3,000.	
(*c*) Payment of bonds due this year, $25,000, and interest $10,000.	
(*d*) Payment of public benefit instalment to Assessment Fund, $1,116, and interest $281, Improvement 50.	
13. Stores issued chargeable to	
General Fund Appropriations	42 874
Water Fund Expense (cash transfer made)	7 197
Cemetery Maintenance Fund (cash transfer made)	1 483
14. Warrants issued against treasurer for payment of accounts payable	393 764
15. Permanent property costing $6,000 sold for cash	1 260
16. Permanent property costing $1,820 discarded as a result of becoming useless	

Water Fund:

1. Services billed	$146 867
2. Accounts collected	147 842
3. Uncollectible accounts of prior years written off	1 097
4. Invoices and payrolls, current expense	69 826
5. Invoices for purchase of stores	31 424
6. Stores issued for use	32 615
7. Vouchers for payment of bonds due	20 000
Interest	3 000
8. Depreciation entered as charge against Current Income and credited to Replacement Reserve	10 600
9. Deposits received $400, refunded in cash $240, forfeited $60.	
10. Invoices for replacements of equipment costing $6,200 from replacement reserve	7 800

11. Invoices for additions to plant	$ 12 460
12. Vouchers for purchase of securities necessary to fully invest the replacement fund	
13. Income received on investments	1 102
14. Warrants drawn for invoices approved	145 316

Assessment Fund (Transactions 1 to 4 apply to improvement 51 and 5 to 8 to Improvement 50):

1. Improvement approved and bonds for $24,000 issued and sold at par and accrued interest, $461.	
2. Assessment roll approved, $25,000, 10% of which is public benefit	
3. Payments on contracts and other expense	$23 610
4. Rebate to property owners credited to assessment roll	1 000
The city did not get any rebate	
5. Current assessments collected	13 415
Interest	2 346
6. Delinquent assessments collected	2 816
Interest	217
7. Interest paid on bonds	3 000
8. Bonds called and paid on interest dates	20 000

Trust Fund:

1. Interest received on investments	$4 400
2. Securities costing $15,000 sold for $15,600 and accrued interest $400	
3. Securities of par value $20,000 bought for $20,800 and accrued interest $260	
4. Warrants issued for:	
Policemen's Pensions	3 200
Firemen's Pensions	2 400
Cemetery Maintenance	2 342
5. Income and profit on investments distributed 7% to Cemetery Endowment fund; 55% to Cemetery Maintenance Fund; 20% Policemen's Pension Fund, 18% Firemen's Pension Fund.	

It is the practice of the city to close out the unencumbered balance of appropriations of the General Fund at the end of each year. Depreciation on the general property of the city is not entered and accrued interest on outstanding bonds is disregarded. Warrants issued in payment of audited vouchers are immediately credited to cash. Interfund transactions are completed by making all necessary transfers of cash at once. Budgetary operations are controlled through proper general ledger accounts.

Attention is directed to the following facts and conditions at the close of the year 1949:

1. 1948 taxes in excess of the reserve against them are to be written off.

2. Because of the increased uncertainty of 1949 tax collections, the reserve on them is to be increased to 15%.

3. Included in the general fund invoices referred to under No. 10 is $7,600 for permanent property purchased.

You are to prepare:

(*a*) A trial balance of the General Fund, giving effect to the foregoing transactions before making adjustments or closing the books at the end of the fiscal year.

(*b*) A balance sheet of all funds after closing the books at December 31, 1949.

(*c*) A statement of the current surplus of the General Fund for the year showing the revenue, the expenditures, and other items increasing or decreasing surplus during the year, and the balance of surplus at the end of the year.

(*d*) A statement of income and expense of the Water Department for the year.

PROBLEM 102

(Hospital)

The accounts of the General Hospital are divided into three funds: Current, Endowment, and Plant. The following balances were taken from the books at January 1, 1950.

Current	
Cash	$ 5 105
Accounts Receivable—Patients	10 145
Notes Receivable—Patients	2 000
Other Accounts and Notes Receivable	1 040
Supplies and Materials	4 850
Prepaid Expenses	800
Accounts Payable	5 365
Notes Payable	150
Reserve for Bad Debts	4 260
Accrued Salaries and Wages	360
Endowment	
Cash	2 350
Investments	40 050
Real Estate	2 600
Plant	
Land	10 000
Buildings	450 760
Furniture and Equipment	64 950

Plant

Reserve for Depreciation—Buildings	$ 25 365
Reserve for Depreciation—Furniture and Equipment	24 120
Bonds and Mortgages Payable	147 000

Transactions for the Year

1. Total bills sent to patients	$124 560
(Of this amount $4,100 was estimated as being uncollectible)	
2. Collected from patients	105 495
3. Notes receivable collected (Patients)	800
4. Invoices were approved for	
Administration Expenses	11 400
Dietary Expenses	25 200
5. Household and Property Expense invoices	25 750
6. Sold furniture amounting to	3 460
(No depreciation had been set up)	
7. Total Charity and Courtesy allowances to patients	10 650
8. Investments carried at $1,400 were charged off as worthless	
9. Equipment costing $2,890 was purchased, replacing old equipment which had cost $2,000 and now has a book value of	250
10. Vouchers were made out for salaries and wages amounting to	5 550
(This includes the wages accrued at the beginning of the year)	
11. Vouchers were approved for:	
Medical and surgical services	14 000
Nursing services	15 220
Laboratories	4 200
Other professional services	6 300
12. Insurance expired during year	150
13. Materials and supplies used during year	2 650
14. Depreciation of furniture and equipment	6 140
(Operating expense)	
15. Some notes payable were issued for invoices already received	250
16. Received the following income in cash during the year	
For non-hospital services	650
Individual contributions	5 050
Interest and dividends	2 975
17. Purchased land for	5 000
(Gave a mortgage for $3,000)	
18. Sold investments for	10 100
19. Vouchers for additional insurance premiums	200
20. County government appropriated but as yet not received by the hospital	2 000
21. Other accounts and notes receivable collected	1 000
22. Invoices for materials and supplies	4 000

23. Warrants issued for interest payment	$ 3 410
24. Accounts receivable of patients written off as bad	3 560
25. Accrued salaries and wages, December 31	410
26. Endowment fund invested all cash in investments	
27. Depreciation of buildings was estimated at (This is not considered an expense by the hospital)	3 875
28. Warrants issued	114 235

Required:

1. General ledger accounts.
2. Statement of income and expense for the year.
3. Balance sheet of the hospital as of December 31, 1949.
4. Statements of (*a*) current funds surplus; (*b*) plant surplus.

PROBLEM 103 *

(University)

The following transactions are those of the first year of operation of the University of Newstate. Attention is called to the fact that state appropriations made to the university are not paid to it in cash but that to secure these appropriations the university certifies vouchers which are paid by state officers from funds in the State Treasury.

1. Gifts for endowment are received consisting of	
Cash	$ 100 000
Securities valued at	3 800 000
2. Gifts for new buildings and equipment are received consisting of	
Cash	2 000 000
3. A state appropriation for plant development is made by the state legislature amounting to $500,000.	
4. Cash is received from a mortgage bond issue for a new building for $200,000 at par.	
5. Gifts in cash subject to annuity agreements, $100,000.	
6. Investments are purchased for non-expendable funds to be entered at cost as follows:	
Endowment funds	98 000
Annuity funds	99 000
7. Expenditures for plant extension are made as follows:	
From state appropriations for this purpose	497 600
From other plant funds	2 167 821
8. Budget estimate of income for the fiscal year is $900,000.	
9. Budget appropriations for the fiscal year are $880,000.	

* For proper classification of accounts refer to *Financial Reports for Colleges and Universities* by the National Committee on Standard Reports for Institutions of Higher Education.

10. A reserve for working capital for general stores is set aside out of current surplus $15,000.

11. Income for general purposes is realized in cash from the following sources:

Student fees	$218 815
Federal appropriations	50 000
General endowment	104 600
Sales and services	3 120
Miscellaneous	964
Residence halls	21 410
Dining halls	67 684
Bookstore	7 480
Athletics	84 612

12. Income is accrued and billed as accounts receivable for the following items:

Sales and services	2 860
Bookstore	1 624

13. Accounts receivable are collected to the amount of $3,918

14. Income expendable for restricted current purposes is received from the following sources:

Gifts	32 100
Endowment and annuity investments	101 420

15. Vouchers are audited for the current expenses of the following departments:

General administration and expense	38 716
Instruction	392 610
Research	68 420
Extension	37 600
Libraries	31 240
Physical plant	98 615
Residence halls	19 874
Dining halls	51 618
Bookstore	7 145
Athletics	79 480
Annuities	6 000
Fellowships and scholarships	8 000
Sub-total	(839 318)
Stores	31 600
Work in process	16 540

16. Stores are issued for the following purposes:

General administration and expense	1 200
Instruction	9 420
Research	2 618
Physical plant	8 961

17. Vouchers are paid as follows:

From current general funds	551 600
From state appropriations	200 000
From current restricted funds:	

Restricted endowment	$100 612
Restricted gifts	31 400

18. A gift in cash for student loans is received of $25,000. Interest is to be charged on these loans and added to the principal.
19. Student loans are made to the amount of $21,600.
20. Student loans are collected to the amount of $4,200 principal and $986 interest.
21. Investments of endowment funds valued at $21,000 are sold for $22,400 and accrued interest $396.
22. An annuity fund for general current purposes, amounting to $1,000, matures and becomes available for expenditure.
23. Work of service departments is completed and charged to educational departments as follows:

Instruction	7 640
Research	2 824
Physical Plant	4 693

At the close of the year it is found that:

(*a*) There have been expended from current funds and included in No. 15 items which represent additions to plant and equipment amounting to $16,180.

(*b*) Property is found to be worn out and is scrapped and disposed of which originally cost $3,875.

(*c*) Orders and contracts against budget appropriations of the current year are still unliquidated to the amount of $3,100.

From the transactions stated, present in proper form:

1. A balance sheet of the university at the close of the year.
2. A statement of current income, expenditures, and surplus for the year.
3. Statements of loan funds, endowment and other non-expendable funds, and plant funds.

PROBLEM 104

(Long)

Note. This problem consists of a number of assignments corresponding approximately to the various chapters of the text. At the close of each, certain statements are required.

The General Ledger is to be maintained continuously throughout the problem. Subsidiary ledgers are needed at certain points as indicated.

Assignment 1 (after Chapter V).

(1) Jan. 1 A municipal budget contains the following estimated revenues for the fiscal year:

Corporate Fund:	
Taxes	\$500 000
Franchises	30 000
Fines	35 000
Licenses	13 000
Interest	17 000
Miscellaneous	20 000
Street and Bridge Fund:	
Taxes	112 000
Miscellaneous	9 440
Library Fund:	
Taxes	49 700
Playground Fund:	
Taxes	25 000

(2) Jan. 1 The budget provided for the following appropriations:

Corporate Fund:	
Executive Department	\$ 9 620
Legal Department	14 900
Police Department	152 590
Finance Department	108 500
Fire Department	251 600
Health Department	33 970
Street and Bridge Fund:	
Engineers Department	42 650
Street Department	71 410
Library Fund	39 700
Playground Fund	25 000

1. Prepare suitable *summary* budget schedules for these figures (Forms A, B, and C).
2. Make journal entries and post same to general ledger accounts.
3. Prepare fund balance sheets as of January 1.

Assignment 2 (Chapter VI).

(3) Jan. 2 Tax levies were made at the following rates on an assessed valuation of \$39,000,000:

Corporate Fund, \$1.33$\frac{1}{3}$ per \$100
Street and Bridge Fund, \$0.30 per \$100
Library Fund, \$0.13 per \$100
Playground Fund, \$0.06$\frac{2}{3}$ per \$100

The usual rate of loss on collections is 4%.

(4) Jan. 3 Cash received from temporary loan for Corporate Fund, $50,000.

(5) Jan. 4 Loan from the Corporate Fund to Library Fund, $5,000.

(6) Jan. 12 Franchises collected, $8,650.

(7) Jan. 15 Fines assessed, $4,318 of which $3,940 were collected.

(8) Jan. 20 Licenses collected, $3,820.

(9) Jan. 22 Miscellaneous receipts of Street and Bridge Fund, $1,820.

(10) Jan. 25 Gift in cash for Library Fund, $1,000.

(11) Jan. 27 The following tax abatements were made:

Street and Bridge Fund, $318

(12) Jan. 31 Tax collections:

Corporate Fund	$140 625
Street and Bridge Fund	29 150
Library Fund	12 675
Playground Fund	6 515

1. Open revenue ledger accounts and make necessary postings from Assignment 1.

2. Journalize the above transactions and post to the General Ledger and the Revenue Ledger.

3. Prepare fund balance sheets as of January 31.

4. Prepare Revenue Realization Statement as of January 31.

Assignment 3 (Chapter VII).

(13) Feb. 1 Sale of tax anticipation notes dated January 1, bearing 6% interest from date, for par and accrued interest for one month (interest is provided for in Corporate Fund, Finance Department; see Item 22):

Corporate Fund	$100 000
Street and Bridge Fund	25 000

(14) Feb. 5 Collections:

Franchises	6 200
Licenses	3 100
Interest	2 610
Library fines	312

(15) Feb. 8

Sale of old equipment for cash (Corporate Fund)	1 340
Collection of old accounts previously written off	810

(16) Feb. 20 Tax Collections:

Corporate Fund of which $52,800 was for State and $19,620 for County	240 841

Street and Bridge Fund	$34 812
Library Fund	16 410
Playground Fund	8 619

(17) Feb. 24

Fines assessed	2 961
Fines collected	3 120
Fines written off	67

(18) Feb. 28 Miscellaneous revenue receipts:

Corporate Fund	2 761
Street and Bridge Fund	1 327
Playground Fund	624

1. Journalize and post to General Ledger and Revenue Ledger.
2. Prepare fund balance sheets as of February 28.
3. Prepare Revenue Realization Statement as of February 28.
4. Prepare Statement of Receipts as of February 28.

Assignment 4 (Chapter VIII).

(19) Mar. 2 Orders and Contracts issued (estimated cost):

Executive Department	$ 800
Legal Department	1 200
Police Department	9 640
Fire Department	62 800
Street Department	18 600
Library Fund	4 200
Playground Fund	1 800

(20) Mar. 10 Orders and Contracts liquidated:

Legal Department	400
Police Department	4 180
Fire Department	42 400
Street Department	4 800
Library Fund	1 600

(21) Mar. 10 Vouchers audited, including those relating to Item 20:

Executive Department	1 200
Legal Department	1 487
Police Department	21 240
Finance Department	20 000
Fire Department	47 642
Health Department	4 820
Engineers Department	7 948
Street Department	12 810
Library Fund	6 840
Playground Fund	3 940

(22) Mar. 16 Repayment of $25,000 of temporary loans of Corporate Fund with interest $250. (Interest is provided for in finance department appropriations.)

(23) Mar. 24 Repayment of $2,000 of loan from Corporate Fund to Library Fund.

(24) Mar. 31 Tax anticipation notes of Corporate Fund and Street and Bridge Fund taken up with interest for three months. (See note on 22.)

1. Journalize the above transactions and post to the General Ledger.
2. Prepare Fund Balance Sheets as of March 31.

Assignment 5 (Chapter VIII).

Appropriation Transactions
(Details of Entries 19, 20, 21)

Order Number	*Appropriation*	*Class*	*Amount*
1	Police	13	$ 460
2	Executive	12	140
3	Legal	12	400
4	Fire	23	18 200
5	Library	23	1 200
6	Street	13	4 100
7	Executive	12	100
8	Legal	12	200
9	Police	23	3 220
10	Fire	23	16 700
11	Playground	13	1 200
12	Legal	12	250
13	Police	13	2 180
14	Executive	12	210
15	Library	23	2 000
16	Playground	14	600
17	Street	13	12 200
18	Fire	13	10 000
19	Fire	23	12 900
20	Executive	15	350
21	Legal	15	350
22	Street	14	2 300
23	Library	13	1 000
24	Police	13	3 780
25	Fire	14	5 000

Voucher Number	*Order Number*	*Appropriation*	*Class*	*Amount*
1	3	Legal		$ 400
2		Executive	11	800
3 (part)	4	Fire		12 800
4		Finance	11	20 000
5		Health	11	4 820
6	1	Police		480
7		Library	11	5 180
8	6	Street		4 200
9		Fire	11	5 252
10		Legal	11	1 087
11	5	Library		1 260
12		Police	11	17 120
13	10	Fire		16 800
14 (part)	13	Police		500
15		Engineering	11	2 642
16	9	Police		3 140
17	19	Fire		12 790
18		Executive	11	400
19 (part)	15	Library		400
20 (part)	22	Street		700
21		Playground	11	3 940
22		Engineering	11	5 306
23		Street	11	7 910

1. Enter all the above items in the Appropriation Ledger (special form); also make any necessary appropriation ledger entries for Entries 2, 22, and 24.

2. Prepare a statement of appropriations.

3. Prepare statements of expenditures in the forms shown in Chapter XIX, covering expenditures to date, and based on the following classification: 11, Salaries; 12, Office Expense; 13, Supplies and Materials; 14, Repairs; 15, Travel; 23, Equipment.

Assignment 6 (Chapters VII, VIII, IX).

(25) April 1 Tax collections:

Corporate Fund	$192 820	Library Fund	$19 415
Street and Bridge Fund	47 610	Playground Fund	10 112

(26) April 5 Voucher approved for purchase of $50,000 bonds as temporary investments of Corporate Fund, including accrued interest $1,430.

(27) April 6 Warrant issued for Item 26 (Warrants Payable account *not* to be used).

(28) April 8

Additional library fund appropriation 9 000

(29) April 10

Loan to Municipal Auditorium Fund (new fund) by Corporate Fund	$20 000

(30) April 12

Repayment of balance of loan from Corporate Fund to Library Fund	3 000

(31) April 16 Voucher approved for payment of balance of temporary loans of Corporate Fund $25,000 and interest $200.

(32) April 17 Vouchers approved for remittance of state and county taxes, less 5% for collection charges, which is credited to Miscellaneous Revenue.

(33) April 20 Warrants issued for items 31 and 32.

(34) April 28 Encumbrances liquidated:

Corporate Fund	14 310
Street and Bridge Fund	9 630
Library Fund	2 600
Playground Fund	1 800

(35) April 28 Vouchers audited against appropriation accounts, including those relating to item 34:

Corporate Fund	432 715
Street and Bridge Fund	88 882
Library Fund	41 780
Playground Fund	19 410

(36) April 29

Petty cash advance, Corporate Fund with reserve	1 000

(37) April 30 Warrants issued for vouchers payable:

Corporate Fund	511 612	Library Fund	47 619
Street and Bridge Fund	104 906	Playground Fund	23 350

(38) April 30 Revenue receipts:

Franchises	15 000
Fines (new assessments)	26 910
Licenses	7 125
Interest (on bank balances)	12 400
Miscellaneous—Corporate	17 410
Street and Bridge	6 815

1. Journalize above and post to General Ledger. (The Revenue Ledger and Appropriation Ledger need not be carried beyond Assignment 5.)

2. Prepare Fund Balance Sheets as of April 30.

Assignment 7 (Chapter IX).

Treasury transactions for the four months ending April 30 are as follows:

	Deposits Received	*Warrants Paid*
Corporate Fund	$831 945	$764 987
Street and Bridge Fund	142 620	126 410
Library Fund	49 812	45 932
Playground Fund	25 870	23 350

In addition to the above transactions, *all transfers between funds during the period* have been recorded in the treasury accounts. The treasury maintains an account with each fund.

1. Set up the accounts of the treasury required for the above transactions.

2. Prepare a treasury report as of April 30, including (*a*) Treasury Balance Sheet, (*b*) Treasury Statement, (*c*) reconciliation of treasury balances with the balances of the accounting office at that date as shown by Item 3.

3. Present a Statement of Receipts and Disbursements for period ending April 30.

Assignment 8 (Chapter X).

(39) April 30 (*a*) Reserves for uncollectible taxes in all funds are to be adjusted so that the amount of the reserve will exactly equal the amount of uncollected taxes as of this date.

(*b*) Close out all uncollected fines as uncollectible.

(40) April 30 Prepare entries to close the accounts of all revenue funds as of April 30 as for the end of the fiscal year. (All outstanding taxes are to be carried forward on the books with a reserve for the full amount outstanding.) The closing entries are to be posted but no accounts are to be ruled up.

1. Prepare balance sheets for all funds as of April 30 after closing as above described.

2. Present a statement of revenue, expenditures, and surplus for the year April 30, covering all funds.

Assignment 9 (Chapter XI).

(41) June 1 Reserve for stores set up in Corporate Fund, $15,000, and this amount transferred to a Working Capital Fund.

(42) June 2 Purchase orders for stores, estimated:

Store A	$3 100
Store B	4 200
Store C	6 700

(43) June 4 Additional appropriations in various funds:

Corporate Fund	$10 000
Street and Bridge Fund	5 000
Playground Fund	2 000

(44) June 10 Liquidation of stores purchase orders:

Store A	$2 300	Vouchers	$2 294
Store B	3 700	Vouchers	3 821
Store C	5 100	Vouchers	5 010

(45) June 15 Stores issued:

Store A. Corporate fund appropriations	$627
Store B. Playground fund appropriations	916

(46) June 20 Miscellaneous storeroom expenses vouchered:

Store A	$215
Store B	367
Store C	425

(47) June 25 Additional collections of current year's taxes:

Corporate Fund	$3 124
Library Fund	395

(48) June 28 Appropriation encumbrances liquidated:

Corporate Fund	$13 150	Vouchers	$12 860
Street and Bridge Fund	4 170	Vouchers	4 210

(49) June 30 Warrants issued for all vouchers payable in all funds. All necessary interfund transfers for current items are to be made.

1. Journalize and post the above transactions to General Ledger and Stores Ledger.
2. Present a stores statement.
3. Present fund balance sheets of *Revenue and Working Capital Funds* as of June 30.

Assignment 10 (Chapter XII).

(50) July 1 A working capital reserve of $10,000 for a service department is established in the Corporate Fund and

this amount transferred to the *Working Capital Fund* (already opened per Assignment 9).

(51) July 5 Job orders are issued with estimated costs as follows:

Corporate fund appropriations	$1 825
Street and bridge fund appropriations	2 150

(52) July 20 Labor charges to date are as follows:

Against jobs in process	$1 608
Overhead	160

(53) July 20 Material from stores is furnished for jobs in process to the amount of $1,829.

(54) July 20 The following miscellaneous expense vouchers charged to overhead: $24.

(55) July 25 Payroll vouchered $1,684; all material charges reported to General Office.

(56) July 28 Overhead is entered to amount of $78 against jobs which are to be closed out. Jobs are then closed out as follows:

Corporate fund appropriations	
Estimate	$565
Actual	568
Street and bridge fund appropriations	
Estimate	$1 200
Actual	1 274

(57) July 31 Sold $25,000 investments of Corporate Fund for par and interest $1,194.

1. Journalize the above transactions and make necessary entries in both the general books and the service department books.

2. Present: (*a*) Balance sheets of the Corporate Fund, Street and Bridge Fund, and Working Capital Fund, July 31.
   (*b*) A trial balance of the service department accounts, July 31.
   (*c*) Statement of Service Department Operations.

Assignment 11 (Chapter XIV).

The following transactions relate to the *Special Assessment Fund:*

(58) Nov. 1 The construction of a pavement on an assessment plan is authorized. The engineer's estimate of cost is $58,240.

(59) Nov. 10 An issue of bonds for $60,000 is authorized.

(60) Nov. 10 Temporary loans of $10,000 are secured from bank to finance project until bonds are sold.
(61) Nov. 15 Engineering, legal, and court services paid amounting to $4,225.
(62) Nov. 20 Contract let for $53,200.
(63) Dec. 1 Bonds are sold at 99. Bonds bear interest from Dec. 1 at 6%, payable semi-annually.
(64) Dec. 10 Payment on contract $15,400.
(65) Jan. 10* Temporary loans repaid with interest $167.

* Problem begins in this month on other funds.

(66) Jan. 10 Payment on contract $20,800.
(67) Jan. 31 Final payment on contract including extras of $515.
(68) Jan. 31 Assessment amounting to $60,000 authorized, of which 10% is assessed as a public benefit. Entire sum bears interest at 6% from Dec. 1 last.
(69) May 1 Appropriation for this year's "Public Benefit" (10% of total) and one year's interest on entire amount made in Corporate Fund, and payment made to Assessment Fund.
(70) June 1 Semi-annual interest on bonds is paid.
(71) Sept. 1 First instalment of assessments (10%) is collected in full with all accrued interest on entire assessment.
(72) Dec. 1 First series of bonds (10%) is paid and semi-annual interest on bonds paid.

1. Journalize all the above transactions as of the date entered and post to the General Ledger.

2. Present a balance sheet of the *Special Assessment Fund* as of November 30, December 31, of first year, and January 31 and December 1 of the second year.

Assignment 12 (Chapter XV).

The following transactions relate to certain *trust funds* which are described as follows:

Funds A, B, and E are endowment funds, the income of which is expendable for separate purposes.

Fund C is a loan fund, the income of which is expendable for a special purpose.

Fund D is an expendable fund.

Funds A and B are pooled for investment purposes. Fund E is separately invested. Profits on pooled investment transactions are credited to an account "Reserve for Loss and Gain on Investments" and losses are charged to the same account.

(73) May 1 Gifts of cash:

Fund A	$25 000
Fund B	50 000
Fund C	20 000

(74) May 5 Investments purchased for pool, par value, $72,000; premium, $2,400; accrued interest, $300.

(75) May 10 Loans made from Fund C, $6,200.

(76) May 12 Received securities valued at $25,000 for Fund E.

(77) May 15 Gift for Fund D, cash $6,000.

(78) May 20 Pool income received, $3,600, of which $240 is applied to premium account.

(79) May 22 Fund E income received $1,250.

(80) May 24 Loans repaid to Fund C, $1,400 and interest collected, $200.

(81) May 26 Pool income transferred to income accounts of funds in proportion to participation.

(82) May 28 Expenditures from income of various funds:

Fund A	$ 914	Fund D	$3 640
Fund B	1 232	Fund E	350
Fund C	115		

(83) May 29 Pooled securities par value of $18,000 sold for $18,900 and accrued interest $30. (Note that these securities were bought at a premium which has been amortized only to the extent of 10%.)

(84) May 30 Securities of Fund E formerly entered at $5,000 sold for $4,500.

1. Journalize the above transactions and post to the General Ledger and to the subsidiary Trust Fund Ledger. (Special forms.)

2. Submit a trust funds summary balance sheet and a statement of trust funds.

Assignment 13 (Chapter XVI).

The following transactions relate to the *Municipal Auditorium Bond Fund* which has already been opened:

(85) April 1 A bond issue of $300,000 is authorized for a certain public improvement.

(86) April 10 The amount estimated to be realized from the sale of bonds is appropriated for the improvement with the exception of $3,000 held unappropriated.

(87) April 10 The sum of $20,000 is borrowed from the Corporate Fund. (See Item 29.)

(88) April 15 Contracts and orders amounting to $289,600 are authorized.

(89) April 20 Engineering and legal services amounting to $6,200 are paid.

(90) May 15 Bonds are marketed as follows: $100,000 at 99½.

(91) May 20 The sum of $20,000 borrowed from the Corporate Fund on April 10 is repaid.

(92) May 25 Extras and additions to contracts amount to $1,400. Miscellaneous expenses paid, amount to $820.

(93) May 28 An additional appropriation is made to cover final total cost of improvement.

(94) June 10 Bonds are marketed as follows: $100,000 at 101¼.

(95) June 20 Bonds are marketed as follows: $100,000 at par.

(96) June 29 All contracts and other bills are paid in full.

(97) June 30 All accounts are closed and the balance of the fund turned over to a sinking fund for the retirement of the bonds.

1. Journalize the above transactions and post to the General Ledger.

2. Present monthly balance sheets of the *Municipal Auditorium Bond Fund* as at April 30, May 31, and before closing to sinking fund at June 30 (before entering Item 97).

Assignment 14 (Chapter XVII).

The amount turned over to the Sinking Fund from the Bond Fund is carried to surplus of the Sinking Fund (see Entry 97).

The principal and interest relating to the Bond Fund for the municipal auditorium (see Assignment 13) are handled through a Sinking Fund which has already been opened. The bonds are dated April 1, run for 15 years, and draw interest at 5%, payable semi-annually. A special tax levy is made annually to produce equal annual instalments of the principal. The money received from these levies is invested, and the income from investments is applied toward interest obligations as of Oct. 1. The remainder of interest obligations is met by appropriation and transfer from the Corporate Fund.

(98) April 1 Sinking fund requirements for principal and interest for the year beginning this date are set up.

(99) April 1 A tax levy for this year's instalment of the principal is made. (Disregard reserve for non-collectible taxes.)

(100) April 1 The full amount of tax levy is collected.

(101) April 1 The amount received from the tax levy is invested in securities at par bearing 4% interest payable semi-annually (April 1 and Oct. 1).

(102) Aug. 1 An appropriation is made in the Corporate Fund for the amount which that fund is required to pay to the Sinking Fund during the current fiscal year (Jan. 1 to Dec. 31).

(103) Oct. 1 Interest is collected on investments, and transfer of cash is made from the Corporate Fund for the amount appropriated from that fund.

(104) Oct. 1 Interest on bonds is paid.

1. Journalize the above transactions and post to the General Ledger.
2. Present a balance sheet of the Corporate Fund and the Sinking Fund, at the close of business, October 1.

Assignment 15 (Chapter XVIII).

(105) Oct. 5 Refer to Assignment 13 and make all entries necessary in property accounts resulting from the operations of the Municipal Auditorium Bond Fund.

(106) Oct. 10 Enter in the property accounts the following expenditures already made from various funds on account of acquisition of permanent property:

Corporate Fund	$82 246
Street and Bridge Fund	6 150
Library Fund	21 407
Playground Fund	7 408
Trust Fund	976

(107) Oct. 15 Equipment costing $1,600 sold for $725 cash which is deposited in the Corporate Fund.

(108) Oct. 20 Refer to Assignment 11 and capitalize in the property accounts all amounts paid for public benefit, not including interest.

1. Journalize the above transactions and carry to the General Ledger.
2. Present a Balance Sheet of Fixed Assets and Liabilities accounts at October 31.

Assignment 16 (Chapters XIX, XX).

(109) Nov. 1 Received interest on bonds being carried as investments of the Corporate Fund, $1,500.

(110) Nov. 30 If any *current transactions* between funds are still open, complete these transactions by making necessary transfers between funds.

(111) Dec. 31 Issue warrants for all vouchers payable in all funds.

(112) Dec. 31 Close all accounts in all funds as of the end of a fiscal year. Delinquent taxes are to be continued on the books with a reserve for the full amounts.

1. Journalize these transactions and post to General Ledger.
2. Close and rule up all accounts and bring down balances.
3. Prepare all statements essential for an annual published report, covering the transactions of the entire year.

Note. For class use, an additional assignment may be made, referring the books of various students to other students for audit, and requiring a report of the audit with suitable comments.

PROBLEM 105

(Long)

(See Note on Problem 104.)

Assignment 1.

The revenue funds of a certain city are as follows: General Fund, Library Fund, and Hospital Fund.

At the beginning of the fiscal year the balances of accounts of these funds were as follows:

General Fund	
Cash	$6 481
Old Taxes Receivable	1 342
Accounts Receivable	962
Total Surplus	8 785
Library Fund	
Cash	1 342
Hospital Fund	
Cash	368
Accounts Receivable	2 842
Supplies	896
Accounts Payable	1 262
Net Surplus	2 844

(1) Jan. 1 Set up the above balances in the General Ledger.

(2) Jan. 1 The Estimated Revenues for the ensuing fiscal year is as follows:

General Fund	
General Taxes	140 000
Licenses and Franchises	25 000
Fees	12 000
Fines	5 000
Rentals	3 000
Interest on bank deposits	1 000
Library Fund	
Taxes	18 500
Investments	3 500

Gifts	$ 3 000
Fines	1 000
Hospital Fund	
Taxes	25 000
Patients	55 000
Investments	1 200

(3) Jan. 1 The appropriations are as follows:

General Fund	
General Government	18 120
Police Department	46 418
Fire Department	61 096
Health Department	15 168
Parks and Playgrounds	18 025
Public Works	26 000
Library Fund	
Maintenance	6 200
Salaries	15 400
Books	5 000
Hospital Fund	
Medical Department	36 000
House Department	31 000
Building Department	9 000
Equipment	6 000

1. Prepare suitable budget schedules for these figures. Present an itemization of one departmental appropriation only, supplying your own details.
2. Journalize the budget and post to the General Ledger and to the Revenue Ledger.
3. Prepare fund balance sheets as of January 1.

Assignment 2.

(4) Jan. 2 The assessed valuation for the purpose of taxation has been set at $9,824,000. Taxes are levied at the following rates.

General Fund	$1 50 per $100
Library Fund	20 per 100
Hospital Fund	30 per 100

Allowance of 5% in even dollars is made for estimated loss in collection.

(5) Jan. 5 General Fund: Licenses and franchises collected, $2,426.

Library Fund: Fines collected, $127.

(6) Jan. 10 General Fund: Old taxes collected, $622.
(7) Jan. 12 Hospital Fund: Accounts against patients billed, $2,824.
(8) Jan. 15 Gifts received for Library, $622; General Fund: Rentals collected, $347; Fines collected, $426.
(9) Jan. 18 Collection of hospital accounts, $2,946.
(10) Jan. 25 General Fund: Fees collected, $1,862.
(11) Jan. 31 Interest on investments received:

Library Fund	$920
Hospital Fund	316

1. Journalize the above transactions and post to the General Ledger and to the Revenue Ledger.

2. Prepare fund balance sheets as of January 31.

3. Prepare a statement of realization of revenues as of January 31.

Assignment 3.

(12) Feb. 1 Anticipation notes of General Fund issued at par, $25,000.
(13) Feb. 5 Taxes collected (see note), $67,251.
(14) Feb. 10 Hospital accounts collected, $1,698. Gift to hospital for current use, $1,000.
(15) Feb. 15 General Fund: Licenses, $1,220; Fines, $617.
(16) Feb. 18 Loan from General Fund to Library Fund, $3,000.
(17) Feb. 20 General Fund: Sale of old junk, $460; Collection of accounts previously written off, $267; Old taxes collected, $421; Accounts collected, $621.
(18) Feb. 23 Taxes collected (see note), $56,949.
(19) Feb. 25 Hospital accounts billed, $5,622.
(20) Feb. 28 Abatements of current year's taxes:

General Fund	$461
Library Fund	127
Hospital Fund	146

Note. The tax levy includes 50 cents for the state, 25 cents for the county, and $2.25 for the schools, all of which is collected by the city along with its taxes.

Tax collections are credited to a temporary account in the General Fund which is *cleared monthly* to the different funds and accounts on the proportion that the rate of levy of each bears to the total levy. Tax money belonging to other governments is carried in the General Fund.

1. Journalize above and post to General Ledger and Revenue Ledger. Clear the tax collection account.

2. Prepare fund balance sheets.

3. Prepare statements of realization of revenues.

4. Prepare statement of receipts.

Assignment 4.

(21) Mar. 1 Orders and contracts placed:

General Fund	$5 535
Library Fund	300
Hospital Fund	1 365

(22) Mar. 5 Tax collections 161 900

(23) Mar. 8 Loan repaid to General Fund by Library Fund.

(24) Mar. 10 Revenue Receipts:

General Fund	
Licenses	14 600
Fees	6 224
Fines	1 623
Interest	325
Library Fund	
Investments	1 220
Gifts	1 000
Fines	341
Hospital Fund	
Investments	530

(25) Mar. 15 Orders and contracts placed:

General Fund	4 775
Library Fund	25
Hospital Fund	6 100

(26) Mar. 20 Rentals billed, General Fund 1 200
Patients' accounts, Hospital Fund 12 648

(27) Mar. 25 Hospital accounts collected 8 964

(28) Mar. 30 Orders and contracts liquidated:

General Fund	5 917
Library Fund	325
Hospital Fund	2 735

(29) Mar. 31 Vouchers audited:

General Fund	6 545
Library Fund	1 005
Hospital Fund	5 075

1. Journalize above and post to General Ledger. Clear the Tax Collections account.
2. Prepare fund balance sheets as at March 31.
3. Prepare statement of receipts.

Assignment 5 (Detail of entries 21, 25, 28 and 29, Assignment 4).

ORDERS AND CONTRACTS ISSUED

Order Number	*Appropriations*	*General Fund*	*Library Fund*	*Hospital Fund*
1	Public Works	$3 450		
2	Medical			$ 435
3	Health	247		
4	Police	250		
5	Fire	70		
6	Public Works	620		
7	House			930
8	Parks and Playgrounds	68		
9	Police	830		
10	Books		$300	
11	Fire	1 060		
12	Health	800		
13	Medical			2 600
14	Books		25	
15	Medical			1 400
16	Parks and Playgrounds	360		
17	General Government	175		
18	Medical			2 100
19	Police	1 830		
20	Public Works	550		

Vouchers Audited Number	*Order Number*	*Appropriation*	*Amount*
1	14	Books	$ 25
2	1 ($\frac{1}{3}$ complete)	Public Works	1 200
3	4 (part)	Police	200
4	16	Parks and Playgrounds	360
5		Fire	65
6	13 ($\frac{1}{2}$ complete)	Medical	1 300
7	3	Health	250
8	10	Books	290
9		Building (Medical)	750
10		House	1 450
11		Salaries	590
12	1 (completed)	Public Works	2 200
13		General Government	620
14	20	Public Works	550
15	2	Medical	435
16		Maintenance (Library)	100
17	18 (part)	Medical	1 000
18	4 (completed)	Police	50
19	11	Fire	1 050
20		Equipment	140

1. Post to Subsidiary Appropriation Ledger (special form).
2. Prepare a statement of appropriations.

Assignment 6.

(30) April 1	Tax collections		$121 600
	Penalties on above		600
(31) April 3	Orders and contracts placed:		
	General Fund		39 860
	Library Fund		12 614
	Hospital Fund		16 715
(32) April 5	Old taxes not yet collected are written off.		
(33) April 8	Accounts collected:		
	General Fund		1 132
	Hospital Fund		6 427
(34) April 10	Bad hospital accounts written off		316
(35) April 12	Revenue Receipts		
	General Fund:	Licenses	6 560
		Fees	4 740
		Fines	1 862
		Rentals	1 200
		Interest	675
	Library Fund:	Fines	518
		Interest	1 360
		Gifts	1 200
	Hospital Fund:	Interest	300
(36) April 18	Orders and contracts liquidated:		
	General Fund		41 618
	Library Fund		7 620
	Hospital Fund		17 612
(37) April 21	Vouchers audited against appropriation accounts:		
	General Fund		81 840
	Library Fund		12 615
	Hospital Fund		37 831

(38) April 25 Voucher audited for remittance of taxes collected to March 31, to state, county, and schools, less 5% for collection charge. This charge is credited to general fund "fees" revenues.

(39) April 28 Voucher audited for payment of general fund anticipation warrant (see Item 12) with 4% interest to May 1.

(40) April 30 Warrants issued for vouchers payable (see Chapter IX):

General Fund	$212 615
Library Fund	10 421
Hospital Fund	33 920

1. Journalize and post to General and Revenue Ledgers. (Close the Tax Collections Account.)

2. Prepare fund balance sheets as of April 30. (Penalties are distributed in the same manner as taxes.)

Assignment 7.

The Treasurer of this city keeps one cash account for all revenue funds and deposits all money received in three depository banks. Warrants are made payable at these various banks without regard as to the funds to which they relate.

The receipts of the treasury for four months ended April 30, and banks in which deposited, were:

National Bank	$211 549
State Bank	148 088
Trust Co.	134 693

These deposits represented total receipts of all funds as per accounting office records except those of April 12 (Item 35).

Warrants paid by these banks and returned canceled on April 30, amounted to

National Bank	69 827
State Bank	31 764
Trust Co.	28 432

These warrants were distributed among the funds as follows:

General Fund	104 361
Library Fund	5 229
Hospital Fund	20 433

Included in the above are items of interest on investments and bank deposits received by the treasurer but not yet entered in the accounting office as follows:

General Fund	416
Library Fund	850
Hospital Fund	460

1. Set up the accounts of the treasury required for the above transactions. (The balance on January 1 was the same as per the accounting office and was all in the National Bank.)

2. Prepare a treasury report as of April 30.

3. Prepare a reconciliation statement reconciling the treasury balance as per the above report with the cash balances as shown in the fund balance sheets of April 30.

Assignment 8.

(41)	May	1	Tax collections	$49 600
			Penalties	800

(42) Petty cash advances of $2,000 from General Fund authorized and advances made.

(43) May 5 Encumbrances liquidated:

General Fund	1 260
Library Fund	3 412
Hospital Fund	2 621

(43) May 10 Vouchers audited:

General Fund	76 821
Library Fund	8 016
Hospital Fund	24 653

(44)	May	15	Hospital accounts billed	21 624
			Reserve for uncollectible	1 000
(45)	May	20	Hospital accounts collected	22 867

(46) May 25 Draw up warrants for all vouchers payable.

(47) May 27 Remit taxes received for other governments, less 5% for collection. Close Tax Collection account.

(48) May 28 Adjust taxes receivable accounts so that full amount uncollected is offset by reserve.

(49) May 31 Close the estimated revenue and revenues accounts and appropriation and expenditure accounts and surplus receipts as of the end of a fiscal year, but without ruling up ledger accounts.

1. Journalize and post to general ledger.

2. Prepare fund balance sheets as of May 31.

3. Prepare surplus statements of all funds for 5 months, ending May 31. (Enter as of May 1 treasury receipts as per Assignment 7.)

Assignment 9.

(50) Sept. 1 Working capital reserves of $10,000 for stores and $10,000 for job system are established in the General Fund. (Stores and job system transactions are handled in the General Fund and not as a separate fund.)

(51) Sept. 3 Appropriations are made as follows: General Fund, $6,000; Library Fund, $1,000; Hospital Fund, $5,000.

(52) Sept. 5 Purchase orders for stores:

Store A	$3 000
Store B	2 400
Store C	2 200

(53) Sept. 8 Miscellaneous stores expense vouchers:

Store A	210
Store B	168
Store C	159

(54) Sept. 12 Stores purchase orders liquidated:

Store A	2 200	Vouchers	$2 134
Store B	1 600	Vouchers	1 672
Store C	1 300	Vouchers	1 369

(55) Sept. 15 Supplies purchased through Hospital Fund and charged to Supply Inventory account of Hospital Fund, vouchers $694.

(56) Sept. 20 Stores issued: (interfund settlements to be made at a later date)

Store A	1 029
Store B	1 264

Appropriations charged:

General Fund	1 262
Library Fund	496
Hospital Fund	316
Trust Funds (Expendable)	219

(57) Sept. 25 Supplies issued from hospital storeroom to hospital departments $897.

(58) Sept. 28 Stores purchase vouchers liquidated:

Store A	800	Vouchers	$764
Store B	500	Vouchers	562
Store C	700	Vouchers	687

(59) Sept. 30 Warrants issued for all vouchers approved during September.

1. Journalize above transactions in all funds affected and post to General Ledger.
2. Present a stores statement as of September 30.
3. Present balance sheets of all revenue funds as of September 30.

Assignment 10.

(60) Oct. 1 Job orders at estimated costs placed as follows:

General fund appropriations	$3 660
Hospital Fund appropriations	825

(61) Oct. 5 Purchase orders on account of job work, $1,300.
(62) Oct. 8 Material from Store C for job work, $1,160.
(63) Oct. 12 Labor report: charged jobs, $964; undistributed, $39.
(64) Oct. 15 Vouchers approved on all purchase orders for jobs, $1,316.
(65) Oct. 20 Material from hospital storeroom for job work, $60.
(66) Oct. 27 Labor report: charged jobs, $926; undistributed, $42.
(67) Oct. 28 Payroll including foreman's salary of $150, $2,119.
(68) Oct. 29 Warrants issued for items of Oct. 15 and 28.
(69) Oct. 30 Jobs completed and closed: General fund appropriations, estimate, $2,140; cost (including overhead), $2,004; overhead, $128. Hospital Fund appropriations, estimate, $825; cost, $837; overhead, $52.

1. Journalize above in both general books and job office books and carry to General Ledger in both offices.

2. Present trial balance of job office accounts, and balance sheets of General Fund and Hospital Fund, October 31.

Assignment 11.

(70) June 1 Improvement authorized on assessment plan, estimated cost, $59,260.
(71) June 1 Bond issue for $60,000 approved, interest from June 1 at 6%.
(72) June 5 Contract let for $56,310.
(73) June 15 Bonds for $10,000 sold at par and accrued interest ($\frac{1}{2}$ month).
(74) June 20 General expenses of $2,340 paid.
(75) June 25 Appropriation of $600 made in General Fund to cover Public Benefit instalment for current year.
(76) June 30 Bonds of par $20,000 turned over to contractor at $99\frac{1}{2}$ and accrued interest (one month) to apply on contract.
(77) July 15 Bonds for $28,000 par sold at $100\frac{1}{2}$ and accrued interest ($1\frac{1}{2}$ months).
(78) July 20 Assessment of $60,000 confirmed to bear interest at 5% from June 1. Amount of Public Benefit, $6,000, included in assessment as confirmed.
(79) July 25 Deduction allowed on contract, $2,130.
(80) Aug. 10 Final payment made on contract.
(81) Aug. 12 General expenses allowed as reimbursement to General Fund for 5% of final contract less amount of general expense paid direct (see Item 74) and settlement made with General Fund.

(82) Aug. 11 Assessments of $3,600 paid in full with interest to this date (2 months).

(83) Aug. 25 Rebate of 4% authorized on assessments. This rebate is credited on all unpaid assessments including public benefit. Payment for it is made to those who have paid (Item 82).

(84) Sept. 1 Transfer from General Fund to cover first instalment (10%) of public benefit after allowing for rebate, plus interest on total net sum from June 1.

(85) Sept. 2 Assessments of $4,560 paid with interest on this payment and on $40,000 of assessments to Sept. 1.

(86) Sept. 3 Interest paid on all issued bonds to Sept. 1.

(87) Sept. 4 Bonds paid, $8,500; unissued bonds canceled, $2,000.

1. Journalize above and post to General Ledger.
2. Close any accounts which are complete.
3. Present monthly balance sheets of assessment fund, June 30, July 31, August 31, and September 4.

Assignment 12.

(88) Jan. 1 At the beginning of the fiscal year, the following endowment funds were in existence:

Library Fund: cash	$400	Securities	$74 600
Hospital Fund: cash	300	Securities	24 700

Set up accounts for these funds, including subsidiary ledger accounts. (The income from these funds is paid direct into the library and hospital funds. See Entries 11, 24, 35, and Assignment 7.)

(89) Jan. 10 Addition to library endowment, cash $25,000.

(90) Jan. 15 Purchase of securities for library endowment, par $24,000, cost $25,200. (No accrued interest.)

(91) Jan. 20 Received securities value $10,000 as addition to hospital investment.

(92) Feb. 5 Received building valued at $12,000, net income to be used for public lectures.

(93) Feb. 10 Received cash: $6,000 to endow concerts and $6,000 to endow care of trees.

(94) Feb. 15 Securities par $12,000, purchased at par, and accrued interest $100 as pooled investment of concert and tree-care funds.

(95) Feb. 20 Rental received on building (lecture endowment), $600.

(96) Feb. 25 Received income on pooled investments, $300. (Note Entry 94.)

(97) Mar. 10 Part of income from library fund investments applied to amortization of premium, $200. (Relates to Entry 24.)

(98) Mar. 15 Hospital fund securities received Jan. 20 valued $5,000 sold for $4,800 cash.

(99) Mar. 20 Expenses on lecture fund building, $50.

(100) Mar. 25 Received cash $1,000 to be expended for special playground work.

(101) April 5 Transfer net income of lecture fund building to the Lecture Fund.

(102) April 12 Sold $5,000 library fund securities for $5,500.

(103) April 15 Net income of pooled investments distributed to participating funds.

(104) April 20 Library fund investments par $5,500, purchased for $5,200. (No accrued interest.)

(105) April 25 Expended from trust funds:

Concert Fund	$ 75
Tree Care Fund	50
Playground Fund	300
Lecture Fund	100

1. Journalize above transactions, open all necessary general ledger accounts, and post all transactions.

2. Open necessary subsidiary ledger accounts and post above transactions to them.

3. Submit monthly balance sheets of the trust fund accounts of the General Ledger, January to April inclusive.

4. Submit a statement of trust funds for four months, ended April 30, together with subsidiary ledger accounts.

Assignment 13.

(106) June 1 Bond issue of $100,000 is voted for an addition to the hospital. (The bonds bear interest at 6% from June 15, payable semi-annually. Interest is payable out of the Hospital Fund. At least $1,000 must be paid on the principal on each interest date and the payments on the principal may be made from the General Fund or may be provided by a special tax levy. Authority to create a sinking fund is also granted.) Proceeds are appropriated for the purpose of the issue.

(107) June 10 Contracts are let for the building for a total of $86,000.

(108) June 20 Advance from the General Fund, $20,000.

(109)	June 25	Payment on contract, \$15,000. Other bills and expenses paid, \$2,420.
(110)	June 30	Bonds of par value \$40,000, sold at $100\frac{3}{4}$, and accrued interest.
(111)	July 5	Advance repaid to the General Fund. (No interest charge.)
(112)	July 10	Payment on contract, \$15,000.
(113)	July 12	Orders for furniture and equipment, \$10,164.
(114)	July 15	Money borrowed on temporary bank loan, \$25,000.
(115)	July 20	Payment on contract, \$20,000.
(116)	Aug. 1	Balance of bond issue sold at $99\frac{3}{4}$ and accrued interest.
(117)	Aug. 10	Extras on contract allowed, \$620.
(118)	Aug. 14	Temporary loan repaid with interest at 6%.
(119)	Aug. 20	All orders paid at original estimate.
(120)	Aug. 30	Balance paid on contract.

1. Set up general ledger accounts necessary for above transactions and make all entries. (Warrants are drawn for all vouchers as soon as vouchers are audited.)

2. Take off monthly balance sheets of the Bond Fund as of June 30, July 31, and August 31.

Assignment 14.

A Sinking Fund is created as indicated in Assignment 13. The Sinking Fund is to cover only that portion of the principal in excess of the minimum payment and not including interest. Each year \$9,000 is to be provided in the Sinking Fund.

(121)	July 1	The requirements of the Sinking Fund for the year are set up.
(122)	July 5	A special tax levy for the Sinking Fund is approved: total, \$9,500; reserve, \$700.
(123)	July 10	Taxes collected, \$5,000.
(124)	July 15	\$5,000, invested at 4%, interest payable quarterly.
(125)	July 25	Taxes collected, \$3,900.
(126)	July 31	Securities purchased, \$3,600, plus accrued interest, \$15.
(127)	Sept. 30	Balance of Hospital Bond Fund turned over to Sinking Fund.
(128)	Oct. 15	Interest on Item 124 received.
(129)	Nov. 30	Securities purchased in Item 126 sold at cost; interest, \$90, also received.
(130)	Dec. 15	Interest on bonds, including those retired on this date, paid from Hospital Fund.
(131)	Dec. 15	Bonds of \$1,000 paid from the General Fund.
(132)	Dec. 15	Bonds of \$4,500 paid out of Sinking Fund.

1. Journalize above in all funds and carry to General Ledger.
2. Submit balance sheets of the Sinking Fund, July 31 and December 15.

Assignment 15.

(133) Dec. 1 Refer to Assignment 13 and make all entries necessary in property accounts resulting from operations of Hospital Bond Fund.

(134) Dec. 5 Refer to Assignment 11 and capitalize in the property accounts the amounts *paid* for public benefit, not including interest.

(135) Dec. 30 Set up in the books all property owned as of January 1; cost, $1,369,821.

(136) Dec. 30 Enter in the property accounts the following expenditures already made from various funds on account of acquisition of permanent property:

General Fund	$16 946
Hospital Fund	7 624
Library Fund	4 961

(137) Dec. 30 Refer to Assignment 14 and enter in property accounts all transactions affecting them.

(138) Dec. 30 Property costing $3,000, purchased from Hospital Fund, is sold for $374 cash.

(139) Dec. 30 The inventory shows property which cost $3,621 not fit for further service; it is ordered removed from the accounts.

1. Journalize all transactions and post to General Ledger.
2. Submit a balance sheet of property accounts, December 30.
3. Submit a statement of funded indebtedness as of December 30.

Assignment 16.

(140) Dec. 31 Close all fiscal accounts in all funds, including writing off uncollected taxes.

(141) Dec. 31 Vouchers for following encumbrances are approved:

General Fund:	
Appropriations, estimated	$1 375
actual	1 316
Stores, estimated	500
actual	510
Library Fund:	
Estimated	1 582
Actual	1 527

Hospital Fund:	
Estimated	$746
Actual	768

(142) Dec. 31 If any current balances between funds remain open, make transfers to close them.

(143) Dec. 31 Issue warrants for any vouchers unpaid except hospital fund.

(144) Dec. 31 Bring down balances of all general ledger accounts.

Prepare the following statements:

1. Balance Sheet, December 31 (see statement 37).
2. Summary of receipts and disbursements for the year.
3. Statement of revenues, expenditures, and surplus for the year for all revenue funds.

ADDITIONAL PROBLEMS

Since 1933, the American Institute of Accountants has included, in most of its semi-annual examinations, questions and problems relating to governmental or institutional accounting. The Institute questions are used by most of the states in their certified public accountant examinations.

By special permission certain of the problems offered by the American Institute of Accountants are included herein. To facilitate reference, these problems are placed in a separate numerical series with the prefix "A."

UNIFORM CERTIFIED PUBLIC ACCOUNTANT EXAMINATIONS PREPARED BY THE BOARD OF EXAMINERS OF THE AMERICAN INSTITUTE OF ACCOUNTANTS AND ADOPTED BY THE EXAMINING BOARDS OF FORTY-SEVEN STATES, THE DISTRICT OF COLUMBIA, AND FOUR TERRITORIES

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(Problems A-1 to A-24 inclusive)

PROBLEM A-1

(Chapter VIII)

From the following information, prepare a statement for the year 1940 showing operating budget appropriations, expenditures, and other commitments against the appropriations, as well as unencumbered balances, for the Town of Erskine:

The following appropriations were included in the operating budget adopted:

Administrative Expenses:	
Salaries	$3 600
Telephone	600
Stationery and Supplies	1 800
Assessment and Collection of Taxes:	
Salaries	5 000
Telephone	100
Stationery and Supplies	800
Police Department:	
Salaries	25 000
Supplies	1 500
Radio Maintenance	550
Operation Expense and Maintenance of Squad Cars	3 500
Telephone	200
Fire Department:	
Salaries	15 000
Supplies	500
Operation Expense and Maintenance of Equipment	1 200
Telephone	100

Street Repairs and Maintenance:		
Salaries and Wages	$ 5 550	
Sand, Gravel, Stone, etc.	7 400	
Interest on Bonds	21 000	
Payment of Bonds	45 000	
		$138 400

No provision was made in this budget for purchase of new equipment or for capital improvements.

Cash disbursements for all divisions of the accounts were recorded in the same cash disbursement book. A summary of the amounts so recorded for the year follows:

Name and Description	*Total Payments*	
Telephone Co.		
Telephone Service:		
Collector's Office	$ 84	
Police Department	167	
Fire Department	85	
Treasurer's Office	540	$ 876
Payrolls:		
Salaries of Policemen	$24 500	
Salaries of Firemen	14 800	
Salary of Treasurer	2 500	
Salary of Assistant to Treasurer	1 100	
Salary of Tax Collector	3 000	
Salary of Assessor	2 000	
Salary of Superintendent of Streets	2 000	
Wages of Street Employees	3 450	53 350
A.B.C. Stationery Co.:		
Tax Duplicates, Tax Cash Books, etc.	$300	
Treaurer's Books, Ledger Sheets, etc.	450	750
W & B Garage Co.:		
Repairs to Police Cars	$550	
Tires for Police Cars	300	
Repairs to Fire Trucks	450	1 300
Gulf Oil Corporation:		
22,000 Gallons of Gasoline Delivered to Disbursing Pump at Police Department at 10¢ per Gallon (All gasoline purchased is charged to Police Department. Periodic adjustments are made for gasoline used by other departments. During the year the Fire Department used 6,000 gallons.)		2 200

Name and Description		*Total Payments*
Penrod Printing Company:		
Purchase Orders, Vouchers, Checks, etc.	$600	
Tax Bills	425	$ 1 025
Colonial Outfitters:		
Police Uniforms and Sundry Supplies	$900	
Firemen's Uniforms and Sundry Supplies	300	1 200
Barrett Company:		
30,000 Gallons of Tarvia at 10¢ per Gallon (Of the above, 20,000 gallons were used in the repair of existing roads and the balance was used in the construction of new streets.)		3 000
State Trust Co.:		
For Interest on Coupon Bonds		21 000
Consolidated Stone and Sand Co.:		
600 Tons Crushed Stone at $10 per Ton (Of the above, 500 tons were used in the repair of existing roads and the balance was used in the construction of new streets.)		6 000
American Fabric & Rubber Co.:		
Repairs to Fire Line Hose		150
Johnson Radio Company:		
Incidental Repairs to Police Radio System		450
State Trust Company:		
For Payment of Bonds		45 000
Johnson's Food Store:		
Food for Prisoners		300
DeCozen Motor Co.:		
3 Buick Coupes for Police Department		3 750
RCA Mfg. Co.:		
3 Short-Wave Receivers and Transmitters, including Installation, per Contract		1 250
		$141 601

The following commitments and accrued expenses remained unpaid at December 31, 1941:

Name and Description		*Total Payments*
Payroll:		
Wages Accrued—Street Department		$ 95
Penrod Printing Company:		
Stationery and Vouchers for Treasurer's Office (Not received until January 15, 1941.)		250
Johnson Radio Company:		
Repairs to Police Radio		85
Telephone Company		
Telephone Bill for December		
Treasurer's Office	$50	
Collector's Office	14	
Police Department	23	
Fire Department	12	99
		$529

American Institute of Accountants Examination, November, 1941.

PROBLEM A-2

(Chapter X)

From the April 30, 1940, trial balance of the general fund of the City of X and the transactions of the succeeding year stated below, prepare:

(*a*) Balance sheet of April 30, 1941.
(*b*) Statement of revenues, expenditures, and surplus for the year ended on that date.
(*c*) Work sheet.

TRIAL BALANCE—APRIL 30, 1940

	Debits	*Credits*
Cash on Hand	$ 910	
Cash in Banks	54 670	
Petty Cash	100	
Taxes Receivable—1938 Levy	22 420	
Reserve for Taxes not Collected—1938 Levy		$ 22 420
Taxes Receivable—1939 Levy	260 000	
Reserve for Taxes not Collected—1939 Levy		260 000
Taxes Receivable—1939 Levy, Pledged on Anticipation Notes	5 000	
Stores Inventory	3 700	
Due from Water Fund	8 000	
Accounts Payable		9 240
Tax-Anticipation Notes Payable		5 000
Reserve for Encumbrances		14 140
Special Reserve for Contingencies		2 000
Unappropriated Surplus		42 000
	$354 800	$354 800

(1) The estimated revenues for the year ended April 30, 1941, amounted to $405,000.

(2) The city's share of general property taxes from the 1940 tax levy amounted to $285,000. The accounting for tax revenues is on a cash basis, but a control account for each tax levy is set up.

(3) The operating budget was approved in the sum of $408,000.

(4) Revenues were collected in the sum of $392,450, as follows:

1938 Levy	$ 22 420
1939 Levy	233 580
1939 Levy (pledged)	5 000
Miscellaneous Revenue	131 450
	$392 450

(5) Tax-anticipation notes against the 1940 levy were issued and cash was received in the amount of $20,000. Receipts from tax-anticipation notes are entered as revenues, and an equivalent amount of taxes receivable is set up as an asset against the liability created by the notes.

(6) Purchase orders were issued for commodities in the sum of $138,610.

(7) Invoices received, approved, and vouchered amounted to $139,033, which included $5,310 purchases for store inventory.

(8) Tax-anticipation notes against the 1939 levy for $5,000 and interest thereon amounting to $7 were paid.

(9) Payrolls were vouchered and approved for payment in the amount of $246,500.

(10) Supplies were issued on stores vouchers from the central stores in the amount of $6,760, which included $1,500 stores issued to the water fund.

(11) Warrants were issued to cover interest $6,000 and principal of bonds $10,000.

(12) Warrants were issued in payment of approved vouchers in the amount of $383,643.

(13) The petty cash fund was increased $100.

(14) The general fund advanced $5,000 to the water fund.

(15) Total cash deposited in the banks amounted to $412,100.

(16) An analysis of the appropriation ledger showed that purchase orders encumbered amounted to $387 more than the corresponding purchase orders liquidated.

(17) The encumbrances as at April 30, 1941, amounted to $18,640.

(18) The City Council authorized the setting up of a reserve for stores for $10,000.

(19) The necessity for a special reserve for contingencies was terminated and this item closed to surplus.

(20) Taxes collected in prior years were refunded in the amount of $1,000.

American Institute of Accountants Examination, November, 1942.

PROBLEM A-3

(Chapter X)

From the following information concerning the operations of a municipal expendable revenue fund for the fiscal year ended April 30, 1948 prepare:

A. Entry or entries to close the books of the fund for the year ended April 30, 1948.

B. A balance sheet of the fund as of April 30, 1948.

C. A statement of revenue, expenditures, and surplus for the year ended April 30, 1948.

Information re Expendable Fund, for year ended April 30, 1948:

1. Unappropriated surplus at May 1, 1947, consisted entirely of cash	$ 2 350
2. Budget estimate of revenue	185 000
3. Budget appropriations	178 600
4. Tax levy $115 620, against which a reserve of $4 000 is set for estimated losses in collection	
5. Tax receipts, $112 246, with penalties of $310 in addition	
6. Receipts from temporary loans $20 000, all of which were repaid during period with interest of $300	
7. Balance of encumbrances unliquidated, April 30, 1948	3 250
8. Vouchers approved for expense	146 421
9. Vouchers approved for capital expenditures	21 000
10. Vouchers approved for payment of bonds falling due during the year $5 000 and for interest on bonds, $2 000	
11. Miscellaneous revenue received	74 319
12. Rebate of current year's taxes collected in error	240
13. Warrants issued and payable on demand	169 400
14. Refund on an expense voucher on which an excess payment was made	116

American Institute of Accountants Examination, May, 1948.

PROBLEM A-4

(Chapter X)

You are engaged to audit the accounts of a city for the year 1933. The books as you find them show the following information as to the general fund:

Surplus at the beginning of year	$332 011
Taxes assessed	184 400
Other revenues collected	56 841
Expense, per vouchers approved	227 642
Surplus at end of year	345 610

On investigation, you find the following additional facts:

(1) The assets of the fund include the inventory of general stores—$23,812. A continuous inventory of about this amount is maintained, the council having authorized such an inventory up to $25,000.

(2) The assets of the fund also include book value of permanent property, which on January 1 totaled $269,362 and on December 31, $286,962. The difference represents capital expenditures for the year charged direct to fixed asset accounts.

(3) On December 31, orders and contracts were outstanding estimated to cost $4,350, payable out of the appropriations of the year just closing.

(4) Taxes for the year were due May 1 and were only 82% collected December 31. Estimates indicate further collections of not over 8%.

(5) Amounts due the Sinking Fund from the General Fund for the year totaled $9,212 of which $6,000 was paid and included in expense.

(6) On January 2, 1934, a public benefit instalment of $3,178 is due the Assessment Fund. A similar instalment, due January 2, 1933, was paid in 1933 and entered as an expenditure of that year.

(7) Included in the expense of the year under audit are the following sums paid for departments entirely supported by special funds: Library, $1,687; Parks, $2,143.

1. Does the surplus as stated at the beginning and end of the year correctly indicate the amount available for appropriation and expenditure on those dates? If not, present working statements to indicate the adjustments you would consider necessary in each figure.

2. Present also a correct statement of General Fund Revenue, Expenditure and Available Surplus for the year.

American Institute of Accountants Examination, November, 1936.

PROBLEM A-5

(Chapter XII)

Prepare working sheet showing balances of accounts of Municipal Garage Revolving Fund of Rhodes City as at February 28, 1945.

Rhodes City maintains a revolving fund for financial control of a municipally owned and operating garage serving several departments. It is the city's policy to operate the fund accounts so that the departments served will be charged their several shares of the operating cost for a fiscal year. Current billings are made to the departments for services based on charges for actual materials and supplies and actual direct labor plus estimated overhead. Differences between total overhead actually incurred and the estimated amounts billed to departments are adjusted through supplemental billing at the end of each fiscal year. Adjustments to physical inventories are handled through overhead.

1. Garage overhead for the fiscal year ended February 28, 1945, comprised the physical inventory adjustments referred to and the following expenses: superintendence, $3,000; office salaries, $1,300; office supplies, $200; garage depreciation, $2,000; heat and light, $620; miscellaneous, $80.

2. Accounts payable at February 28, 1945, amounted to $1,100. All payroll had been paid.

3. The garage originally cost $50,000, financed by a capital advance

from the General Fund, and, as at March 1, 1944, the accumulated depreciation thereagainst was $4,000. On that date, records of the Revolving Fund showed cash $3,000; inventories of gas, oil, and grease, $1,050; and of repair and maintenance materials $2,250; a balance of $900 on account of services previously rendered the General Fund; and accounts payable of $700; capital advances from the General Fund of $50,000; and a Current Surplus account.

4. Physical inventories at February 28, 1945, were as follows:

Gas, oil, and grease	$ 890
Repair and maintenance materials	2 000

5. Summaries of certain transactions for the fiscal year ended February 28, 1945, appear in journal entry form as follows:

(*A*)

Due from General Fund	$9 740	
Due from Highway Fund	7 045	
Due from Police Fund	8 280	
Due from Fire Fund	4 685	
Services rendered to departments		$29 750

To record charges to departments for services billed, as follows:

			Repairs and Maintenance		
			Actual Cost		Estimated Overhead (75% of Direct Labor)
Department	*Total*	*Gas, Oil, Grease (at cost)*	Materials	Direct Labor	
General	$ 9 740	$ 3 950	$1 240	$2 600	$1 950
Highway	7 045	2 460	910	2 100	1 575
Police	8 280	2 280	1 100	2 800	2 100
Fire	4 685	1 540	520	1 500	1 125
	$29 750	$10 230	$3 770	$9 000	$6 750

(*B*)

Cash	$29 900	
Due from General Fund		$10 400
Due from Highway Fund		7 000
Due from Police Fund		8 000
Due from Fire Fund		4 500

To record cash received for services billed

(*C*)

Purchases—Gas, oil, and grease	$10 100	
Purchases—Repair and maintenance materials	3 580	
Accounts payable		$13 680

To record purchases for the period

American Institute of Accountants Examination, November, 1945.

PROBLEM A-6

(Chapter XIII)

Four municipalities—Rose City, Copperville, Pineboro, and Coletown—formed the Spring Valley Water Commission for the construction and operation of a joint water supply. The project was estimated to cost $10,000,000 and to have a capacity of 100 million gallons daily (MGD).

It was agreed that the capital costs were to be apportioned among the participating municipalities according to the daily water allotments, but no municipality should be charged for the cost of any part of the project unless it were to receive benefit therefrom.

CAPITAL ASSESSMENT:

The four municipalities allotted the entire estimated supply of 100 MGD among themselves and agreed to an initial assessment of the estimated cost of $10,000,000 in proportion to these allotments as follows:

	MGD	*Assessment*
Rose City	30	$3 000 000
Copperville	20	2 000 000
Pineboro	10	1 000 000
Coletown	40	4 000 000
	100	$10 000 000

All capital assessments were collected in full except that of Copperville which paid only 90% of its assessment.

EXPENDITURE TO DECEMBER 31, 1935:

At the close of 1935 Spider Dam and Crabtree Reservoir were completed and pipe lines had been laid, namely twin pipe lines from Spider Dam to the point where Rose City takes off the water and a single pipe line below that point. The cost per mile of the twin pipe lines was twice the cost per mile of the single line, and it was assumed that the twin lines were constructed for the benefit of all the municipalities. For convenience the capital costs are identified by classes as follows:

- Class A Cost of Spider Dam and other costs at the headworks.
- Class B Twin pipe lines from Spider Dam and the headworks to the Rose City take-off—a distance of five miles. (In accordance with the agreement the expenditures under A and B are to be distributed to all of the four participating municipalities on the basis of the contract allotments.)
- Class C Single pipe line from Rose City take-off to Copperville take-off—a distance of three miles. (This capital cost is accordingly apportionable to Copperville, Pineboro, and Coletown.)

Class D Single pipe line from Copperville take-off to Pineboro take-off—a distance of two miles. (This capital cost is apportionable to Pineboro and Coletown.)

Class E Single pipe line from Pineboro take-off to Coletown take-off—a distance of ten miles.
(This entire capital cost is chargeable to Coletown.)

The capital costs up to January 1, 1936, when operation began, were as follows:

CONSTRUCTION COSTS:

Headworks:

Spider Dam	$2 000 000
Pumping station	300 000
Power house	200 000
Total	$2 500 000

Aqueduct:

$100 000 per mile of single pipe line.

Land, rights of way, etc.:

Class A	$1 993 100
Class B	447 800
Class C	198 900
Class D	104 200
Class E	256 000
Total	$3 000 000

Engineering Costs:

Direct charges to classes:

Class A	$440 000
Class B	120 000
Class C	80 000
Class D	60 000
Class E	100 000
Total	$800 000

Indirect charges—$200 000 (to be apportioned to classes in proportion to direct engineering costs).

Administrative Expenses—$500 000 (to be apportioned to classes in proportion to all construction costs up to January 1, 1936, exclusive of land and engineering costs).

OPERATING ASSESSMENT 1936:

It was further agreed that the operating costs were to be apportioned according to actual water consumption, but in no event was the basis for any municipality's portion to be less than the contract allotment. The surplus or deficit resulting from each year's operations was to be credited or charged to the succeeding year's operating assessments.

In 1936 the average daily consumption was:

	MGD
Rose City	40
Copperville	10
Pineboro	5
Coletown	25
	80

The 1936 operating expenses, estimated at $100,000, had been assessed as follows:

Rose City	$ 30 000
Copperville	20 000
Pineboro	10 000
Coletown	40 000
	$100 000

Rose City was the only municipality that paid its operating assessment in 1936.

EXPENDITURE 1936:

The actual expenditures for 1936 were as follows:

Capital:

It was necessary to build a surge tank to prevent water surges from breaking the aqueduct. The tank cost $100,000 and was constructed halfway between the Rose City and Copperville take-off points. It was agreed that this surge tank was of benefit to all the participating municipalities.

Operating:

$71,000

In addition to the capital and operating expenses listed above, 1936 engineering expenses were $16,000, to be apportioned 50% to the capital division and 50% to the operating division; and 1936 administrative expenses were $25,000, to be apportioned 80% to the operating division and 20% to the capital division. The portions of the engineering and administrative expenses chargeable to the capital division are to be applied to the several classes of property on the basis of the engineering and the construction costs, respectively, to January 1, 1936.

WATER SALES 1936:

The Spring Valley Water Commission, in anticipation of the underconsumption of water on the part of some of the participating municipalities, entered into a contract with Glendale for 1936 whereby this municipality agreed to pay $40 a million gallons for water. The contract provided that Glendale would take a minimum of ten million

gallons a day. Glendale paid the Commission $7,500 a month on account; its consumption for the year was 3,300 million gallons. There were no expenses chargeable to the water-sales division except $30,000 representing the cost of connecting the pipe lines, which is not included in the above $71,000 operating expenses.

Profits from the sale of water to municipalities not participating in the project were to be apportioned annually to the participating municipalities on the basis of operating expenses charged to them.

General Data and Requirements:

The accounts of the commission are kept in three self-balancing divisions, namely: "capital," "operating," and "water-sales." At the end of 1936 all interdivisional balances are settled in cash to the extent that funds are available in the divisions.

Prepare a balance sheet (with supporting schedules and work papers) separately showing assets and liabilities of each division as of December 31, 1936, including the balances due from and due to the respective municipalities, and the equities of the participating municipalities.

American Institute of Accountants Examination, May, 1938.

PROBLEM A-7

(Chapter XIV)

The City of Patwray voted a bond issue for the purpose of constructing a modern sewer system in a section of the city. The cost is to be borne 10% by general revenues of the city and 90% by assessment against the property in the area of the improvement.

You are to prepare a balance sheet of the fund as of the close of the fiscal year of the city, December 31, 1948.

The following transactions are to be considered:

February 1, 1948—The city engineer submits to city council an estimate of the cost of the project, showing a total of $455,000. The council approves the estimate and project, subject to voter approval of the necessary bond issue.

April 1, 1948—A ten year 4% bond issue of $460,000 was approved by the voters of the city, the proceeds to be used for the project.

April 10, 1948—A contract for $15,000 covering preliminary planning was entered into by the trustees who are carrying out the project.

April 15, 1948—The assessment roll is certified on the basis of $415,000 due in ten equal annual instalments starting with May 1, 1949. Interest at 4% per annum from May 1, 1948, is to be paid on each instalment due date, based on the total assessment outstanding.

April 30, 1948—The preliminary plans are completed and an invoice of $13,700 is received from the contractor in full payment. The trustees

borrow $25,000 from the general fund of the city to pay this and other costs. The invoice was paid on May 5, 1948.

May 20, 1948—A contract for construction was entered into at a price of $420,000 subject to some possible future adjustments.

June 1, 1948—$200,000 of the authorized bonds were sold at 101. The entire issue is to be dated June 1, 1948, with interest payable December 1 and June 1 each year. The bonds mature at the rate of $46,000 per year, starting June 1, 1949.

July 31, 1948—A partial payment of $26,100 was made to the contractor, which amount was 90% of the amount due based on percentage of completion. The loan from the general fund was repaid.

November 1, 1948—The remaining bonds were sold at 98 and accrued interest.

August 1, 1948 to December 31, 1948—Payments to the contractor amounted to $284,400; 10% of the amount due having been withheld pending completion. $4,210 of costs in connection with administering the construction project were paid during the period. The bond interest was paid at due date. The city paid $2,300 on its part of the cost of the project.

American Institute of Accountants Examination, May, 1949.

PROBLEM A-8

(Chapter XIV)

The Board of Aldermen of the City of Fulton determine to pave First Street at an estimated cost of $100,000 and take necessary legislative action to initiate the project. The charter of the city requires that the cost of such projects be shared 60% by the city at large and 40% by the district benefited. Bids are obtained, and the contract for the work is awarded the ABC Construction Company for $95,000.

The accounts of the city are maintained on a full accrual basis with provision for encumbering appropriations and with assessment and other characteristic groups of accounts separated. The city has a Revolving Fund of $125,000 which is used to finance uncollected assessments receivable and projects in process pending completion and assessment. This fund at present is invested in assessments receivable and other projects in process aggregating $75,000, and consequently $50,000 must be borrowed temporarily on certificates of indebtedness to finance the First Street project. Ten per cent of the front footage of property in the district benefited is city owned, half of that amount having been acquired through foreclosure of tax liens, and half representing the front footage of public buildings and facilities. Street improvement bonds,

which will be general obligations of the city, will be sold to finance the city's share of the cost of the improvement. For the purpose of section (*a*) of this problem you may disregard any question of premium or interest on the temporary certificates of indebtedness and on the bonds, also ignore the fact that property improvement assessments are usually payable in instalments.

(*a*) Prepare a series of entries in journal entry form, with complete explanations accompanying each, recording the various actions and financial transactions relating to this undertaking as they might appear in the assessment fund accounts of the city.

The Assessment Roll submitted to the Board of Aldermen for confirmation provided for the payment of the assessment against respective properties in five equal instalments and was confirmed by the Board, as submitted, without change.

(*b*) You are required to prepare a draft of an Assessment Roll, making thereon two specimen entries for two separate property owners with respect to the first and second instalments.

American Institute of Accountants Examination, May, 1947.

PROBLEM A-9

(Chapter XV)

On the basis of the following information prepare:

1. A balance sheet of the General Fund after closing the books at December 31, 1932.
2. A statement of the Current Surplus of the General Fund for the year, showing the revenue, the expenditures and other items increasing or decreasing surplus during the year and the balance of surplus at the end of the year.
3. A statement of income and expense of the Water Department for the year.
4. Balance sheets of the Water, Assessment, and Trust Funds at December 31, 1932.

The City of Dowell classified its accounts under four different funds. The balances in the accounts of those funds on January 1, 1932, and on December 31 of the same year before closing were as follows:

General Fund	*January 1*	*December 31*
Cash	$ 10 162	$ 21 215
1931 Taxes Receivable	15 676	12 429
Accounts Receivable	2 325	3 545
Stores	9 641	9 533
Permanent Property	3 154 695	3 154 695
1932 Taxes Receivable	—	60 838
Estimated Revenue from Taxes	—	225 000
Estimated Revenue from Miscellaneous Sources	—	62 000
Appropriation Expenditures for Current Purposes	—	234 398
Appropriation Expenditures for Capital Additions	—	8 716
Appropriation Expenditures for Payment of Bonds	—	25 000
Appropriation Encumbrances (1932)	—	5 842
	$3 192 499	$3 823 211
Accounts Payable	$ 2 826	$ 5 626
Reserve for 1931 Taxes	10 200	10 200
Reserve for Orders and Contracts	3 286	5 842
Reserve for Stores	10 000	10 000
Current Surplus	11 492	11 603
Bonds Payable	250 000	225 000
Capital Surplus	2 904 695	2 929 695
1932 Tax Anticipation Notes Payable	—	25 000
Reserve for 1932 Taxes	—	24 766
Revenue from Taxes	—	222 894
Revenue from Miscellaneous Sources	—	64 325
Appropriations	—	276 000
Estimated Budget Surplus	—	11 000
Sale of Old Equipment	—	1 260
	$3 192 499	$3 823 211

Water Fund	*January 1*	*December 31*
Cash	$ 6 126	$ 717
Accounts Receivable	7 645	5 573
Stores	13 826	12 635
Investments of Replacement Fund	21 700	24 500
Permanent Property	212 604	214 204
Labor and Material Expense	—	109 638
Interest on Bonds	—	3 000
Depreciation Charge	—	10 600
Accounts of Prior Years written off	—	1 097
Expended for additions to plant	—	12 460
	$261 901	$394 424

Water Fund	*January 1*	*December 31*
Accounts Payable	$ 4 324	$ 4 318
Customers Deposits	1 500	1 600
Replacement Fund Reserve	21 700	24 500
Operating Surplus	21 773	21 773
Bonds Payable	60 000	40 000
Capital Surplus	152 604	154 204
Services Billed	—	146 867
Deposits lapsed	—	60
Interest on investments	—	1 102
	$261 901	$394 424

Assessment Fund	*January 1*	*December 31*
Improvement No. 50		
Cash	$ 4 653	$ 1 844
Assessments Receivable	46 829	33 414
Delinquent Assessments Receivable	4 826	2 010
Public Benefit Receivable	5 632	4 516
Interest on Bonds	—	3 000
	$61 940	$44 784
Bonds Payable	$60 000	$40 000
Surplus	1 940	1 940
Interest on assessments	—	2 844
	$61 940	$44 784
Improvement No. 51		
Cash	—	$ 851
Assessments Receivable	—	21 600
Public Benefit Receivable	—	2 400
		$24 851
Bonds Payable		$24 000
Surplus		390
Interest on assessments		461
		$24 851

Trust Funds	*January 1*	*December 31*
Cash	$ 3 216	$ 31
Investments	94 425	99 425
Premium on investments	—	800
Accrued interest purchased	—	260
Cemetery maintenance	—	849
Cemetery expense	—	2 976
Policemen's pension paid	—	3 200
Firemen's pension paid	—	2 400
	$97 641	$109 941

Trust Funds	*January 1*	*December 31*
Cemetery Endowment Fund Reserve	$60 000	$ 60 000
Policemen's Pension Fund Reserve	18 691	18 691
Firemen's Pension Fund Reserve	16 824	16 824
Cemetery Maintenance Fund Reserve	2 126	2 126
Profit on sale of investments	—	600
Undistributed income	—	4 800
Policemen's Pension Fund contributions	—	4 160
Firemen's Pension Fund contributions	—	2 740
	$97 641	$109 941

It is the practice of the city to close out the unencumbered balance of appropriations of the general fund at the end of the year. Depreciation on the general property of the city is not entered, and accrued interest on investments or on outstanding bonds is disregarded. Income and profit on trust fund investments are distributed 62% to Cemetery Funds, 20% to Policemen's Pension, 18% to Firemen's Pension Fund.

The Cemetery Maintenance Fund consists of the income from the Cemetery Endowment Fund and is used for cemetery expense. Excess of receipts over disbursements of pension funds are closed to the reserve accounts of the respective funds at the end of the year.

Attention is directed to the following facts and conditions at the close of the year 1932:

(1) 1931 taxes in excess of the reserve against them are to be written off.

(2) Because of the increased uncertainty of 1932 tax collections the reserve on them is to be increased by fifty per cent.

(3) Invoices on all orders and contracts outstanding at beginning of year have been paid with a saving of $111, which has been credited to Current Surplus.

(4) The old property sold during the year was carried in the accounts at a value of $6,000.

(5) Permanent property valued at $1,820, becoming useless, was discarded during the year.

(6) Replacements of water-department equipment costing $6,200 were made from the Replacement Fund during the year at a cost of $7,800.

American Institute of Accountants Examination, November, 1933.

PROBLEM A-10

(General)

A governmental authority was constituted about July 1, 1937, to carry out certain recreational activities for which the authority was to buy or construct the equipment.

It was decided that the accounts of the authority will show budgetary estimates as well as actual income and expenditures in an approved manner, and that the transactions will be recorded in the following funds:

General Operating Fund
Working Capital Fund
Sinking Fund for Redemption of Bonds
Property Fund
Bond Fund [1]

From the following information, prepare a columnar work sheet recording the transactions of the authority so as to show the asset and liability and budgetary accounts for the year ended June 30, 1938, and (*a*) Balance Sheet [1] (*b*) Statement of Revenues, Expends and Surplus.[1]

(1) An advance of $50,000 was made by the government creating the authority to finance the initial construction and activities, to be repaid out of operating revenues.

(2) From the working capital fund thus created, $10,000 was transferred to the General Fund for current operating expenses until revenues could be realized.

(3) A budget of recreational activities for the year was adopted as follows:

Revenues		
Licenses	$ 50 000	
Fees	100 000	
Sales	30 000	
Miscellaneous	10 000	$190 000
Expenditures		
Administration	$10 000	
Bathing pavilion	65 000	
Boating	25 000	
Park maintenance	54 000	
Interest on bonds	6 000	
Sinking Fund requirements	20 000	$180 000

(4) Purchases of supplies were made for central stores to the amount of $36,000 and paid in full.

(5) A bond issue of $200,000 for improvements was authorized as

[1] Additions to original problem.

of July 1, 1937, bearing interest at 3% per annum, payable semi-annually. It was disposed of on August 1 at par and accrued interest of $500.

(6) Contracts amounting to $165,000 were let for improvements. Work was completed and contracts paid to extent of $156,000, which included $1,000 extras, leaving $10,000 in progress on June 30, 1938.

(7) Additional construction work was supplied through the Working Capital Fund to the extent of $34,000, which included $18,000 labor paid in cash, $14,000 material from stores at cost, and $2,000 overhead. The working capital fund was reimbursed in full for this service.

(8) Other services (labor only) supplied to authority activities and paid for by the Working Capital Fund were as follows, including 10 per cent or $920 for overhead:

Bathing pavilion	$3 300	
Boating	1 100	
Park maintenance	5 720	$10 120

Of the above $2,200 for park maintenance was incomplete and not billed as of June 30, 1938. Otherwise, reimbursement to the Working Capital Fund was completed.

(9) Revenues collected during the year were as follows:

Licenses	$ 48 500	
Fees	101 400	
Sales	29 200	
Miscellaneous	9 400	$188 500

In addition there were $1,600 of licenses billed but not collected, on which possible losses should not exceed 20 per cent.

Of the fees collected, it was necessary to refund $210.

Of the licenses collected, $500 represented advance payments on account of the following year.

(10) Supplies were issued to authority departments by the central stores as follows, the figures in each case including 10 per cent or a total of $1,050 for working-capital-fund overhead:

Administration	$ 330	
Bathing pavilion	2 640	
Boating	1 650	
Park maintenance	6 930	$11 550

Transfers were made to the working capital fund to the amount of $10,600 on account of these items.

(11) Contracts and orders issued during the year for operating expenses totaled $83,000. These were liquidated to the extent of $81,160, leaving $1,200 for bathing pavilion, and $640 for boating, or a total of $1,840 outstanding at June 30.

(12) Vouchers approved during the year for payrolls, invoices, and miscellaneous, including those covering contracts and orders liquidated, as well as other items, were as follows:

Administration	$ 9 450	
Bathing pavilion	59 160	
Boating	21 600	
Park maintenance	41 000	
Interest	6 000	$137 210

Treasury warrants were issued and paid in settlement of these items to the amount of $135,610.

(13) Transfer was made to the Sinking Fund for $18,000 of the amount due it from the General Fund, leaving the remainder as still owing. Securities costing $18,000 were purchased for this fund, and income thereon was realized to the amount of $300. Among the securities purchased were $5,000 bonds of the authority, which were immediately retired.

(14) The sum of $5,000 was repaid to the Working Capital Fund on the advance made to the General Fund.

(15) Purchases of office and general equipment to the amount of $20,000 were made from the Working Capital Fund. This equipment is to be written off by charges to overhead at the rate of 5 per cent per year, beginning with the current year.

(16) Overhead expense of the Working Capital Fund paid for the year was $2,600. The physical inventory of stores at the end of the year was $12,300. Stores and overhead surplus were carried to the Surplus account of the fund. The sum of $1,000 was repaid to the central government to apply on the advance made to the authority.

(17) Among the invoices paid during the year from the General Fund were items totaling $16,540 for park maintenance equipment.

American Institute of Accountants Examination, May, 1939.

This problem may be extended by requiring the following additional items:

(*c*) A statement of realization of revenue.

(*d*) A budget statement of appropriations and expenditures.

(*e*) A statement of revenue, expenditure, and surplus of the authority for the year.

PROBLEM A-11

(General)

(City of Mariwood)

The following account balances are taken from the books of the City of Mariwood on June 30, 1943, the close of the fiscal year.

1. Segregate the data into the applicable fund or account-group trial balances, supplying the needed account titles.
2. Prepare closing entries.

Accounts Payable—general	$ 6 000
Appropriations—general	106 000
Bonds Payable—general	300 000
Bonds Payable—special assessment—District No. 1	25 000
Bonds Payable—premium—special assessment—District No. 1	1 000
Building—garage	20 000
Building—garage—reserve for depreciation	5 000
Buildings—other	300 000
Capital outlays for construction—bridge	70 000
Capital outlays for construction—special assessment—District No. 1	26 000
Cash	47 600
Contracts Payable—bridge	5 000
Depreciation—garage	2 500
Encumbrances—bridge	25 000
Encumbrances—general	7 000
Equipment—garage	50 000
Equipment—reserve for depreciation	10 000
Equipment—other	75 000
Estimated revenues	100 000
Expenditures—general	104 000
Garage—original appropriation	60 000
Inventory of materials and supplies—garage	1 500
Inventory of materials and supplies—general	4 000
Labor—garage	5 000
Land—garage	4 000
Land—other	20 000
Materials and supplies used—garage	2 000
Overhead—garage	2 500
Public improvements	1 250 000
Receipts—interest on special assessments—District No. 1	1 000
Reserve for authorized expenditures—bridge	100 000
Reserve for authorized expenditures—special assessments	25 000
Reserve for encumbrances—bridge	25 000
Reserve for encumbrances—general	7 000
Revenues—garage	12 500
Revenues—general	102 000

Special assessments receivable—District No. 1 deferred	$	18 000
Special assessments receivable—District No. 1—delinquent		400
Surplus		1 419 000
Taxes Receivable—delinquent		75 000

Explanatory Data

1. The city has deposited all cash in a single bank account. The fund segregation will require a separate account for each fund. The cash is owned as follows: garage, $2,000; bridge, $35,000; construction of pavement, $2,000; special assessment bond payments, $1,600; interest on special assessment bonds, $2,000; balance, general city.
2. $3,000 of the special assessment construction expenditures is from cash belonging to the General Fund.
3. The city's share of special assessment construction unpaid is $5,000.
4. The municipal garage has supplied services in the amount of $1,000 for the General Fund for which no settlement has been made.
5. The municipal garage was built and equipped out of general taxes. The surplus earned by the garage to July 1, 1942, is $3,000.

American Institute of Accountants Examination, November, 1944.

PROBLEM A-12

(General)

From the following information, prepare balance-sheet working papers of each of the following funds of Morton City as of February 28, 1944: (1) General Fund, (2) Special Assessments Fund, (3) Bond Fund, and (4) General Fixed Assets (sometimes referred to as a group rather than a fund).

Morton City has established the above funds in its accounting system and in addition a Sinking Fund and a Bonded Indebtedness Fund (or group). Detail for the latter two funds is omitted in this problem and balance-sheet working papers of these funds are not required of the candidate.

Morton City keeps its accounts on the accrual basis, except with respect to interest receivable and payable not yet due. It makes provision in its tax roll for state road taxes, state school taxes, and county taxes which are collected by it as agent for the state and the county.

Ledger account balances as at February 28, 1944, are presented as follows:

General Fund	*Balance*
Cash in depositories	$125 000
Petty Cash	500
Taxes Receivable—current	215 000

	Balance
General Fund	
Taxes Receivable—delinquent	$ 20 000
Taxes Receivable for other units—current	18 000
Interest and penalties receivable on delinquent taxes	1 400
Vouchers Payable	130 000
Notes Payable	116 200
Due to special assessments fund	8 400
Due to other governmental units—State	21 600
Due to other governmental units—County	5 400
Unappropriated surplus	44 900
Appropriations	921 800
Expenditures	900 000
Estimated revenues	950 000
Actual revenues	953 600
Revenues not anticipated	8 200
Taxes collected in advance	14 800
Emergency note	5 000
Special Assessments Fund	
Cash in depositories	316 600
Special Assessments Receivable	320 000
Due from General Fund—Municipality's share of assessment improvement costs	8 400
Special assessment liens	20 000
Improvements other than buildings—completed	75 000
Improvements other than buildings—in progress	28 000
Vouchers Payable	15 000
Notes Payable	90 000
Contracts Payable—uncompleted contracts	130 000
Bonds Payable	350 000
Reserve for authorized expenditures	183 000
Unappropriated Surplus—construction	
Unappropriated Surplus—interest	
Bond Fund	
Cash in depositories	120 000
Accounts Receivable	15 000
Buildings—completed	120 000
Buildings—uncompleted	50 000
Bonds authorized—unissued	100 000
Vouchers Payable	25 000
Contracts Payable—uncompleted contracts	68 700
Contracts Payable—completed contracts	60 000
Expenditures	390 000
Reserve for authorized expenditures	560 300
General Fixed Assets (Balances as at March 1, 1943)	
Land	1 200 000
Buildings	3 400 000
Improvements other than buildings	640 000

General Fixed Assets (Balances as at March 1, 1943)	*Balance*
Machinery and equipment	$ 325 000
Work in progress	
Investment in property	5 565 000

Your audit discloses the following:

1. Reserves for estimated losses against receivables after abatements in the General Fund are to be provided for as follows:

Taxes Receivable—current	10%
Taxes Receivable—delinquent, and interest and penalties thereon	20%
Taxes Receivable for other units—current	10%

2. Abatements of taxes not reflected are $4,900 for 1943, $710 for 1942, and $340 for 1941. Interest and penalties applicable to abated taxes were $80 for 1942 and $20 for 1941.

3. The state and county taxes, amounting to $36,000 and $9,000, respectively, were credited to unappropriated surplus as part of the entry setting up the tax roll. The current balances in the respective accounts—due to other governmental units—represent cash collected to date for these units. Such cash, which has not as yet been remitted to the units, has been credited to the account, Taxes Receivable for other units—current.

4. The taxes collected in advance of $14,800 were subject to a discount of $800, currently charged to Expenditures account.

American Institute of Accountants Examination, May, 1945.

PROBLEM A-13

(General)

The report of the City of Glendale for the fiscal year ended March 31, 1942, includes the following comparative statement:

General Fund

Assets	*March 31, 1942*	*March 31, 1941*
Cash in banks	$ 12 000	$ 14 000
Uncollected taxes	84 000	72 500
Accounts Receivable	8 200	21 000
Sinking Fund cash	—	—
Deferred charges to future taxation	—	—
General Fund deficit	—	20 000
	$104 200	$127 500

CAPITAL FUND

Assets	*March 31, 1942*	*March 31, 1941*
Cash in banks	—	—
Uncollected taxes	—	—
Accounts Receivable	—	—
Sinking Fund cash	$ 5 000	$ 1 000
Deferred charges to future taxation	340 000	205 000
General Fund deficit	—	—
	$345 000	$206 000

GENERAL FUND

Liabilities	*March 31, 1942*	*March 31, 1941*
Notes Payable	$50 000	$120 000
Accounts Payable	8 000	7 500
Reserve for doubtful accounts	600	—
Bonded indebtedness	—	—
General Fund surplus	45 600	—
	$104 200	$127 500

CAPITAL FUND

Notes Payable	—	—
Accounts Payable	—	—
Reserve for doubtful accounts	—	—
Bonded indebtedness	$345 000	$206 000
General Fund surplus	—	—
	$345 000	$206 000

The following additional information is disclosed concerning budget and transactions in the year ended March 31, 1942:

Estimated revenues		$250 000
Actual revenues		222 200
Appropriations (including $4 000 to sinking fund and $11 000 for retirement of bonds)		260 000
Expenditures		306 000
Serial bonds issued (at par) to fund operating deficit (the proceeds were used to liquidate general fund liabilities)		150 000
Bonded indebtedness March 31, 1941, represented by:		
Serial bonds	$111 000	
Sinking fund bonds	95 000	206 000

No reserve for uncollectible taxes is to be considered.

From the foregoing, based on principles of municipal reporting, prepare:

(*a*) Fund balance sheet of March 31, 1942.
(*b*) Statement of general fund cash.
(*c*) Statement of general fund surplus.
(*d*) Statement of bonded indebtedness.

American Institute of Accountants Examination, May, 1942.

PROBLEM A-14

(General)

(City of Doeville)

From the following information concerning the general accounts of the City of Doeville, prepare:

1. A statement of revenues, expenditures, and surplus of the general accounts for the year 1943.
2. A balance sheet of the General Fund as of December 31, 1943.
3. A comparative statement of revenue and budget estimates for the year.
4. A statement of expenditures and encumbrances in comparison with the budget estimates.
5. Closing entries.

The trial balance of the general accounts of the City of Doeville at the beginning of the new fiscal year, January 1, 1943, was as follows:

Cash	$37 452	
Taxes receivable prior years	3 729	
Miscellaneous accounts receivable	1 868	
Tax liens	2 046	
Audited vouchers		$20 370
Reserve for encumbrances		8 010
Unappropriated surplus		16 715
	$45 095	$45 095

The transactions for 1943 are summarized below:

1. The budget was adopted for the 1943 fiscal year as follows:

Expenditures

State and county taxes	$ 10 370
Addition to sinking fund	20 000
General administration	28 200
Protection of life and property	30 000
Protection of health	21 000
Streets and roads	40 000
Education	120 000
	$269 570

Revenues

Licenses and permits	$ 6 250
Fines and penalties	6 715
Miscellaneous	11 580
Taxes	245 025
	$269 570

2. Appropriations were made to cover encumbrances outstanding at January 1, 1943, as follows:

General administration	$ 110
Protection of life and property	2 450
Protection of health	750
Streets and roads	2 500
Education	2 200
	$8 010

3. Of the taxes receivable for prior years, $3,427 was collected. Tax liens were obtained against the remaining delinquent taxpayers.

4. All the tax liens outstanding at the beginning of the year were sold for cash, and all the outstanding miscellaneous accounts receivable were collected.

5. The tax levy for 1943 was $245,025, of which $236,421 was collected in cash.

6. Contracts were let and open-market orders were placed in the estimated amount of $126,382, as follows:

General administration	$ 10 824
Protection of life and property	15 933
Protection of health	8 422
Streets and roads	25 727
Education	65 476
	$126 382

7. Cash was received from licenses and permits totaling $5,276, and from fines and penalties totaling $6,956. Miscellaneous income aggregated $11,475, of which $9,375 was collected.

8. Claims presented and approved against outstanding contracts and open-market orders amounted to $125,955, as follows:

General administration	$ 10 853
Protection of life and property	13 877
Protection of health	8 887
Streets and roads	28 951
Education	63 387
	$125 955

The claims are the same as the amounts originally estimated except for one streets-and-roads claim which exceeded the original estimate by $1,000.

9. Payroll vouchers amounting to $116,450, not covered by contracts and open-market orders, were approved as follows:

General administration	$16 621
Protection of life and property	17 500
Protection of health	11 850
Streets and roads	13 479
Education	57 000
	$116 450

10. Vouchers were approved for payment of $20,000 appropriated to the Sinking Fund and of $10,370 for taxes due the state and county.

11. Cash payments made against audited vouchers amounted to $270,653, including those outstanding at January 1, 1943.

American Institute of Accountants Examination, May, 1944.

PROBLEM A-15

(General)

The following is a balance sheet of the City of Croix at December 31, 1935:

Current Fund

Assets

Cash	$ 15 482 34
Taxes Receivable:	
Year 1932	1 917 66
Year 1933	7 308 14
Year 1934	8 133 11
Year 1935	123 170 65
Deferred charges:	
Overexpenditures of 1935 appropriations	437 10
Taxes canceled—1935	850 00
	$157 299 00

Liabilities

Tax Revenue notes:	
Year 1933	$ 7 000 00
Year 1934	8 000 00
Year 1935	123 000 00
Accounts Payable	17 601 00
Surplus revenue	1 698 00
	$157 299 00

Capital Fund

Assets

Cash	$17 810 95
Improvements in progress	39 152 62
Deferred charges to future taxation for cost of completed improvements	25 380 00
	$82 343 57

Liabilities

Serial bonds	$26 000 00
Notes Payable	49 000 00
Accounts Payable	7 343 57
	$82 343 57

The governing body of the city adopted the following budget for the year 1936:

APPROPRIATIONS

Department of Public Works	$275 450 00	
Department of Revenue and Finance	48 500 00	
Department of Public Safety	535 375 00	
Department of Public Affairs	190 000 00	
Department of Parks and Public Property	60 000 00	
Interest on bonds	3 500 00	
Retirement of bonds	7 000 00	
Interest on notes	4 500 00	
Overexpenditures of 1935 appropriations	437 10	
Taxes canceled—1935	850 00	
		$1 125 612 10

ANTICIPATED REVENUES

General licenses	$10 700 00	
Liquor licenses	63 000 00	
Interest on taxes	22 000 00	
City clerks' fees	700 00	
Building permits	2 500 00	
Bureau of Health fees	5 400 00	
Police court fines	3 000 00	
	$ 107 300 00	
Amount to be raised by taxation	1 018 312 10	
		$1 125 612 10

The actual amount of taxes levied for the year 1936 was $1,018,603.75. During the year 1936, improvements in progress costing $30,000 were completed. The notes payable issued to finance the improvements were retired from the proceeds of a serial bond issue which was sold at par. A statement of receipts and disbursements for the year 1936 follows:

RECEIPTS:

1932 taxes	$ 1 012 75		
1933 taxes	5 475 63		
1934 taxes	6 125 47		
1935 taxes	115 245 78		
1936 taxes	787 375 62		
General licenses	10 754 00		
Liquor licenses	63 125 00		
Interest on taxes	21 900 00		
City clerk's fees	725 00		
Building permits	2 530 00		
Bureau of Health fees	5 350 00		
Police court fines	2 925 00		
Miscellaneous fees	250 00		
Tax revenue notes—1936	215 000 00		
		$1 237 794 25	
		30 000 00	
			$1 267 794 25

DISBURSEMENTS:

Department of Public Works		$270 680 00	
Department of Revenue and Finance		47 350 00	
Department of Public Safety		525 250 00	
Department of Public Affairs		187 325 00	
Department of Parks and Public Property		39 100 00	
Interest on bonds		3 500 00	
Retirement of bonds		7 000 00	
Interest on notes		4 300 00	
Tax revenue notes—1933		7 000 00	
Tax revenue notes—1934		6 000 00	
Tax revenue notes—1935		114 000 00	
Accounts payable—current fund		16 751 00	
		$1 248 256 00	
Improvements in progress	$ 5 900 00		
Notes payable	30 000 00		
Accounts payable—capital fund	7 343 57		
		43 243 57	
			$1 291 499 57

The following bills applicable to the year 1936 were unpaid at December 31, 1936:

Department of Public Works	$4 000 00
Department of Revenue and Finance	1 000 00
Department of Public Safety	9 500 00
Department of Public Affairs	2 000 00
Department of Parks and Public Property	700 00

From the foregoing prepare a work sheet showing (1) the balance sheet at December 31, 1936, (2) the changes in revenue surplus, (3) journal entries, and (4) cash transactions.

American Institute of Accountants Examination, November, 1937.

PROBLEM A-16

(General)

From the following data prepare a columnar work schedule, showing the financial transactions of the City of M in 1942 together with general-fund balance sheets and statement of bonded debt at the close of that year:

1. *Balance sheet—January 1, 1942:*

Assets

Cash	$ 2 000
Taxes receivable—arrears	15 000
	$17 000

Liabilities

Reserve for uncollectible taxes—arrears	$10 000
Accounts payable	3 000
Unappropriated surplus	4 000
	$17 000

STATEMENT OF BONDED DEBT—JANUARY 1, 1942

Assets

Deferred charges to future taxation	$285 000

Liabilities

4½% serial bonds payable	$285 000

2. *Budget for the year 1942:*

Estimated revenues	
Taxes receivable—1942 levy	$225 000
Court fines	10 000
Licenses	6 000
Permits	10 000
Interest and penalties	8 000
	$259 000

Current appropriations	
General government	$68 000
Police department	61 000
Fire department	12 000
Highway department	44 000
Sanitation department	39 000
Retirement of serial bonds	15 000
Interest on bonds	17 000
Interest on tax notes	3 000
	$259 000

3. *The amount of taxes levied for the year 1942 is $236,250, which includes a 5% allowance for uncollectible accounts.*

4. *Receipts and disbursements in 1942:*

Receipts		
Current taxes		$223 000
Taxes in arrears		6 000
Tax anticipation notes		90 000
Other revenues		
Court fines	$10 600	
Licenses	6 100	
Permits	9 800	
Interest and penalties	8 400	34 900
		$353 900

Disbursements		
Sundry appropriations		
General government	$67 000	
Police department	59 250	
Fire department	10 750	
Highway department	42 000	
Sanitation department	40 000	
Retirement of serial bonds	15 000	
Interest on bonds	17 000	
Interest on tax notes	2 700	$253 700
Tax anticipation notes		90 000
Accounts payable		3 000
		$346 700

5. *Bills unpaid at December 31, 1942, amounted to $2,600.*

6. *The uncollected taxes originating prior to January 1, 1942, should be fully reserved for.*

7. *Other transactions in 1942:*

(*a*) The construction of a new municipal center was authorized at an estimated cost of $100,000.

(*b*) 4½% serial bonds in the principal amount of $100,000 were authorized and issued at par.

(c) Contracts were let for construction of the municipal center, aggregating $95,000.
(d) $60,000 was paid on these contracts.
(e) On December 31, 1942, $80,000 construction work was completed.

American Institute of Accountants Examination, November, 1943.

PROBLEM A-17

(General)

From the following information, prepare a work sheet for Middle City for the year ended June 30, 1945, showing opening balances, entries in the various accounts to reflect transactions for the year, and fund balance sheets at the end of the year.

The fund balance sheets of Middle City at July 1, 1944, are submitted as follows:

MIDDLE CITY

COMBINED BALANCE SHEET—ALL FUNDS: JULY 1, 1944

General Fund

Assets		*Liabilities, Reserves, and Surplus*	
Cash	$50 000	Accounts payable	$30 000
Taxes Receivable—delinquent	25 000	Reserve for encumbrances	5 000
Long-time advance to revolving fund	15 000	Due to revolving fund	5 000
		Unappropriated surplus	35 000
		Unappropriated surplus—advance to revolving fund	15 000
	$90 000		$90 000

Transportation Revolving Fund

Cash	$10 000	Long-time advance from general fund	$15 000
Due from general fund	5 000		
	$15 000		$15 000
	$105 000		$105 000

Transactions for fiscal year ended June 30, 1945:

1. Estimated total revenues are $200,000, including $75,000 of miscellaneous revenue.

2. Appropriations are $175,000.

3. The council levied property taxes in the amount of $125,000. Based on experience, the expected losses will be 5%.

4. Receipts from current tax revenues amounted to $85,000 and receipts from miscellaneous sources amounted to $80,000.

5. Delinquent taxes received were $23,500 and the balance is considered uncollectible.

6. General-fund materials and supplies received and vouchered for payment amounted to $95,000, including $4,000 in complete fulfillment of all orders outstanding at July 1, 1944; budgeted orders placed amounted to $100,000, and orders outstanding at the end of the year amounted to $4,000.

7. Salary and wage payments amounted to $72,000, as budgeted; vouchered bills paid were $90,000.

8. Collections on taxes written off in prior years were $1,650.

9. Taxes collected in advance were $1,000.

10. In order to finance the construction of certain local roadways, the council voted to set up a special assessment fund and levied a special assessment of $75,000 on 1/1/45, collectible in equal proportions over a period of three years, with interest from date of assessment at the rate of six per cent per year.

11. Pending collection of special assessments, 5% bonds in the amount of $25,000 were sold at a premium of $200 on January 1, 1945. The amount of premium is considered too small to be amortized over the life of the bonds.

12. Construction contracts were let in amount of $50,000.

13. Contractors were paid $20,000 less 10% retained percentage.

14. Special assessments collected amounted to $23,000, representing $22,500 principal on current assessments due for the payment of bonds and $500 interest on deferred assessments to pay interest on outstanding bonds.

15. Outstanding bonds of $12,000 plus interest of $625.

16. The Transportation Revolving Fund purchased trucks for $9,000 of which $5,000 remains unpaid on open account.

17. The Transportation Revolving Fund charged the General Fund for transportation services applicable to General Fund activities in the amount of $3,000 at cost, including depreciation on trucks of $1,200.

18. The Transportation Revolving Fund was paid $6,000 by the General Fund.

American Institute of Accountants Examination, September, 1946.

PROBLEM A-18

(General)

The City of X has prepared a trial balance of all its general-ledger accounts as of the end of the fiscal year, July 31, 1947. There has been no attempt in the past to prepare financial statements on a fund basis. The city wishes to have its statements prepared in accordance with accepted governmental accounting principles and, in order to attain this end, engages the services of a qualified accountant. It is assumed that all account balances are correct as presented and that the accountant's only problem is to allocate Asset, Liability, and Equity accounts to the proper funds.

In order to determine the correct allocation of assets, liabilities, and equities as between funds the accountant makes a detailed examination of the accounts and prepares the schedules which follow. An examination of the city charter and ordinances reveals that the following funds are required by law:

(1) General Revenue Fund
(2) Park Fund
(3) Central Garage Fund

In addition, the accountant deems it advisable that a general fixed assets group of accounts should be established.

CITY OF X

TRIAL BALANCE AS OF JULY 31, 1947

Account	*Debit*	*Credit*
Cash on Hand	$ 4 500	
Cash in Bank	49 000	
Ad-Valorem Taxes Receivable	12 000	
Allowance for Losses on Ad-Valorem Taxes Receivable		$ 2 500
Investments	25 000	
Inventory—Gasoline and Oil	750	
Supplies on Hand	4 450	
Allowance for Depreciation—Land, Buildings and Equipment		25 000
Land, Buildings and Equipment	275 000	
Accounts Payable		2 000
Warrants Payable		7 000
Surplus		334 200
	$370 700	$370 700

Schedules are presented which show the distribution of each asset, liability, and equity account to the proper fund. These schedules follow:

DISTRIBUTION OF CASH

	Total	General Revenue	Central Garage	Park
Cash on Hand	$ 4 500	$ 2 500	$ 500	$1 500
Cash in Bank	49 000	40 000	5 000	4 000
	$53 500	$42 500	$5 500	$5 500

DISTRIBUTION OF AD-VALOREM TAXES RECEIVABLE AND ALLOWANCE FOR LOSSES

	Total	General Revenue	Park
Ad-Valorem Taxes Receivable	$12 000	$9 600	$2 400
Allowance for Losses	2 500	2 000	500
Estimated Realizable	$9 500	$7 600	$1 900

DISTRIBUTION OF INVESTMENTS

Investments	$25 000	$20 000	$5 000

DISTRIBUTION OF INVENTORY—GASOLINE AND OIL

	Total	Central Garage
Gasoline and Oil	$750	$750

DISTRIBUTION OF SUPPLIES ON HAND

	Total	General Revenue	Central Garage	Park
Supplies on Hand	$4 450	$3 000	$1 000	$450

DISTRIBUTION OF LAND, BUILDINGS AND EQUIPMENT AND ALLOWANCE FOR DEPRECIATION

	Total	General Fixed Assets	Central Garage
Land	$20 000	$12 000	$8 000
Building	$180 000	$113 000	$67 000
Equipment	75 000	25 000	50 000
Total	$255 000	$138 000	$117 000
Allowance for Depreciation	25 000	0	25 000
	$230 000	$138 000	$92 000

DISTRIBUTION OF ACCOUNTS PAYABLE

	Total	*Central Garage*
Accounts Payable	$2 000	$2 000

WARRANTS PAYABLE DISTRIBUTION

	Total	*General Revenue*	*Park*
Warrants Payable	$7 000	$5 000	$2 000

DISTRIBUTION OF SURPLUS

Total	*General Revenue*		*General Fixed Assets*		*Central Garage*		*Park*	
	Unapp.	App.	Unapp.	App.	Unapp.	App.	Unapp.	App.
$334 200	$45 100	$23 000	$0	$150 000	$0	$105 250	$5 400	$5 450

Prepare statements of financial condition for each fund.

The Accounting Review, July, 1947, pages 313–315.

PROBLEM A-19

(General)

The City of M has prepared its balance sheet as of June 30, 1949, and shows therein a surplus of $258,216. The statement has been criticized as not giving a satisfactory reflection of the financial position of the city. You are asked (*a*) to revise the statement in accordance with acceptable methods of governmental accounting, and (*b*) you are to provide an analysis of the changes in current fund surplus for the year ended June 30, 1949. You may prepare your revised balance sheet in columnar form if you prefer to present it in that manner.

The balance sheet as prepared, together with a corresponding statement as of June 30, 1948, is as follows:

ASSETS

	Balance 6/30/48	*Balance 6/30/49*
Cash	$ 20 485	$ 2 873
Taxes Receivable	54 200	36 690
Accounts Receivable	12 362	13 584
Investments	42 000	42 000
Prepaid Expenses	6 487	5 374
Fixed Assets	696 565	710 465
Total	$832 099	$810 986

Liabilities

	Balance 6/30/48	Balance 6/30/49
Warrants Payable	$ 30 900	$ 46 970
Bonds Payable	490 000	480 000
Reserve for Depreciation	22 300	25 800
Surplus	288 899	258 216
Total	$832 099	$810 986

Additional information is available as follows:

(*a*) Taxes levied for the year ended June 30, 1949, amounted to $64,300, of which amount $37,600 was collected and $650 abated. Abatement of prior years' taxes was $3,108. It is anticipated that an additional $1,350 of the 1948–1949 levy will finally be uncollectible and that an additional $3,500 of 1947 and prior taxes will prove uncollectible.

(*b*) Revenue other than from taxes was $20,210, but of this amount $4,300 was collected for other governments and has not been paid nor set up as a liability, and $1,200 was from interest on investments. The investments are held in trust, the income to be used for library upkeep. Included in expenditures is $3,050 which is the cost of library upkeep for the year.

(*c*) Expenditures amounted to $153,400 during the year. Included herein is interest on bonds of $15,000, purchase of general fixed assets of $18,900, retirement of general obligation bonds of $10,000, and the abatement of this and prior years' taxes. The $10,000 of bonds and the $18,900 of assets purchased were also credited to Surplus and debited to Bonds Payable and Fixed Assets.

(*d*) Included in fixed assets is $174,964 as of June 30, 1948, and $169,964 as of June 30, 1949, of property of the municipal water plant. The revenue of the plant and the expenses, including depreciation of $8,500 and bond interest on $90,000 of 3% bonds outstanding against the plant, have been netted, and the profit of $9,307 has been transferred to Surplus. The Reserve for Depreciation, the Accounts Receivable, and the Prepaid Expenses at both balance-sheet dates are applicable to the water plant operations. Also $5,025 in 1948 and $8,750 in 1949 of the Warrants Payable are applicable to this department. The cash arising from the department's operations, except for $500 of Working Fund, is used for general purposes of the city.

American Institute of Accountants Examination, November, 1949.

PROBLEM A-20

(School)

The treasurer of the Board of Education of the City of Q submitted the following statement of the school accounts as at September 1, 1938, the beginning of the fiscal year 1938–1939:

RESOURCES	*Tuition Fund*	*Maintenance Fund*	*Building Fund*
Cash on hand	$1 500	$ 500	$ 3 000
Taxes receivable	3 600	900	600
Buildings and land			200 000
School equipment			10 000
Total	$5 100	$1 400	$213 000
LIABILITIES			
Audited vouchers		$ 500	
Reserve for uncollected taxes	$2 160	540	$ 360
Current surplus		360	3 240
Capital surplus			210 000
Total	$5 100	$1 400	$213 600

In accordance with the state laws the accounts of the board must show budgetary estimates, resources, and outstanding liabilities, but the revenues must be recorded on a cash basis. The Treasurer had estimated that 40 per cent of the balance of taxes receivable would be collected in 1938–1939 and had therefore set up 60 per cent of the amounts due as a reserve for uncollected taxes.

The following budget covering the fiscal year ending August 31, 1939, had been approved by the board:

	Tuition Fund	*Maintenance Fund*	*Building Fund*
Appropriations:			
For teachers' salaries	$36 000		
For interest on tax anticipated warrants	1 380		
For fuel, supplies, janitor, etc.		$9 000	
For interest		345	
For new school equipment			$12 000
Total	$37 380	$9 345	$12 000
Resources:			
Estimated tax collections:			
Prior levies—40% of balance	$ 1 440	$ 360	$ 240
1938–1939 levy	34 440	8 985	8 760
	$35 880	$9 345	$9 000

	Tuition Fund	Maintenance Fund	Building Fund
Less—Audited vouchers, September 1, 1938		500	
	$35 880	$8 845	$9 000
Cash on hand, September 1, 1938	1 500	500	3 000
	$37 380	$9 345	$12 000

On November 15, 1938, the treasurer received notice from the county clerk that actual assessments for 1938–1939 amounted to:

Tuition	$45 043
Maintenance	11 367
Building	10 446

During the year the treasurer recorded the following receipts and disbursements:

	Tuition Fund	Maintenance Fund	Building Fund
Receipts:			
Sale of tax anticipation warrants	$24 000 00	$6 000 00	
Tax collections—prior levies	1 480 00	320 00	$ 240 00
Tax collections—1938–1939 levy	36 230 96	9 492 44	9 051 40
	$61 710 96	$15 812 44	$9 291 40
Disbursements:			
Tax anticipation warrants paid	$24 000 00	$6 000 00	
Interest on tax anticipation warrants	1 380 00	345 00	
Teachers' salaries	36 000 00		
Unpaid bills of September 1, 1938		500 00	
Fuel, supplies, janitor, etc.		7 100 00	
On account of $12,000 school equipment installed			$11 400 00
	$61 380 00	$13 945 00	$11 400 00

On August 31, 1939, a bill was rendered to the board for $1,300 covering the repairs to the school building made in that month. The bill was approved but not paid until later in September, 1939.

It was estimated that of the taxes not collected at August 31, 1939, the following percentages would prove uncollectible:

80% of the taxes of prior levies
20% of the taxes of 1938–1939 levy

and adequate reserves are to be set up.

From the foregoing information prepare a columnar work sheet, showing for each fund the budgetary estimates, cash transactions adjustments, and closing entries, as well as the resources, liabilities, reserves, and surpluses.

University of Illinois, Examination in Accounting Theory and Practice—Part I, May 16, 1940.

PROBLEM A-21

(School)

From the following information relating to Prep School, prepare a work sheet showing opening balances, transactions, also adjustments for the year ended June 30, 1946, and closed trial balances as of June 30, 1946, for each of the four classes of funds into which the General Ledger is divided: viz., General Fund, Plant Funds, Endowment Funds, and Student Loan Funds.

The balances of the General Ledger accounts as at July 1, 1945, are as follows:

Cash—for general use	$ 1 000	
Cash—from alumni subscriptions for new dormitory	2 000	
Cash endowment	45 000	
Cash—for student loans	1 000	
Tuition receivable	12 500	
Investments—temporary investments of general cash	4 000	
Investments—endowment	250 000	
Stores	15 000	
Alumni subscriptions for new dormitory (due September 30, 1944)	8 000	
Student loans receivable	3 500	
Education plant		
Financed from original and subsequent endowments	600 000	
Financed from tuition funds	50 000	
Financed from alumni subscriptions	200 000	
Financed by grant from state and local government	50 000	
Accounts payable for supplies		$ 3 500
Unpaid expenses of alumni subscription campaign		1 000
Balance		1 237 500
	$1 242 000	$1 242 000

1. Endowment investments and $40,000 of the endowment cash represent principal of endowment funds held under terms providing that the income therefrom shall be used only for operating expenses of the school. The balance of endowment fund cash represents accumulated income not transferred from the Endowment to the General Fund.

2. Student population was 150 students. The tuition rate was $1,000 per school year per student except for six full scholarships and three partial (one-half) scholarships.

3. 90% of current tuition was collected and $100 of the balance is considered uncollectible.

4. Tuition receivable of prior years was collected in the amount of $12,000 and the balance is considered uncollectible.

5. Charges for operating expenses incurred and supplies purchased during the year totaled $135,000.

6. Inventory of operating supplies at June 30, 1946, amounted to $13,500.

7. Accounts payable for operating supplies and expenses amounted to $2,000 at June 30, 1946.

8. All temporary investments of general cash were sold on July 1, 1945, for $4,300 and accrued interest of $100.

9. Endowment investments having a book value of $25,000 were sold for $27,500, including accrued interest of $500.

10. Investments were purchased by the Endowment Fund trustees at a cost of $50,000.

11. Interest on Endowment Fund investments not sold during the year amounted to $20,500 for the year and was all collected in cash.

12. The Endowment Fund trustees transferred $22,500 to the General Fund bank account.

13. As a result of the continued alumni subscription campaign, additional subscriptions in the amount of $65,000 were received for the purpose of providing a new dormitory. These subscriptions were payable one-fifth at the date of the pledge and one-fifth quarterly beginning January 15, 1946.

14. 5% bonds in the amount of $50,000 were issued for cash on January 1, 1946, to provide funds for immediate construction of the new dormitory out of subscriptions.

15. Contracts in the amount of $70,000 were let for construction of the new dormitory out of subscriptions.

16. The contract for construction of the new dormitory was 50% completed on June 1, 1946, and payment for one-half of the total amount, less a retained percentage of 10%, was made on that date.

17. All alumni subscriptions of the current year were paid on the due dates; those due previously were also paid in full.

18. Tuition receipts amounting to $5,000 were used to build additional bleachers at the athletic stadium.

19. A riding stable costing $4,000 and financed during a previous year from tuition receipts was destroyed by fire. Insurance recovery was $4,500; the building will not be replaced.

20. Student loans amounting to $3,500 were made.

21. Student loan collections amounted to $4,000, including $200 interest.

22. Expenses of the alumni subscription campaign were paid in full in the amount of $1,500.

The Journal of Accountancy, December, 1946, page 502.

PROBLEM A-22

(College)

The following statement gives the account balances on the books of a college at the end of the fiscal year before closing:

	Debit	*Credit*
General Current Funds		
Cash	$ 17 000	
Investments	20 000	
Accounts Receivable	3 000	
Inventories	18 000	
Estimated Income	1 385 000	
Appropriations		$1 360 000
Accounts Payable		2 000
Reserve for Working Capital		20 000
Unappropriated Surplus (after entering budget)		111 000
Educational and general expenditures	1 060 000	
Auxiliary enterprise expenditures	252 000	
Other non-educational expenditures	26 000	
Educational and general income		1 070 000
Auxiliary enterprise income		315 000
Other non-educational income		15 000
Transfer to Endowment	50 000	
Transfer to Plant Funds	62 000	
	$2 893 000	$2 893 000
Restricted Current Funds		
Cash	$ 3 000	
Investments	58 000	
Accounts Payable		$ 1 000
Fund Balances		60 000
	$61 000	$61 000

	Debit	Credit
Loan Funds		
Cash	$ 1 000	
Investments	5 000	
Notes Receivable	36 000	
Income		$ 2 000
Funds Principal, beginning of year		25 000
Gifts to Loan Funds, during year		15 000
	$42 000	$42 000
Endowment and other Non-Expendable Funds		
Cash	$ 3 000	
Securities	857 000	
Funds in trust	100 000	
Profit on sales of investments		$ 10 000
Endowment Funds principal beginning of year		700 000
Gifts to Endowment		100 000
State tax collections for endowment		100 000
Transfer from Current Funds (temporary)		50 000
	$960 000	$960 000
Funds Subject to Annuities		
Cash	$ 1 000	
Investments	99 000	
Fund balances, beginning of year		$80 000
Gifts of annuity funds		20 000
	$100 000	$100 000
Unexpended Plant Funds		
Cash	$ 4 000	
Investments	15 000	
Expenditures for plant additions	360 000	
Replacement Funds balances		$ 15 000
Plant Additions Funds balances, beginning of year		50 000
State appropriation for plant additions		200 000
Gifts for plant additions		50 000
Income on investments		2 000
Transfer from Current Funds		62 000
	$379 000	$379 000
Funds Invested in Plant		
Educational plant beginning of year	$3 100 000	
Bonds payable		$ 100 000
Investment in plant		3 000 000
	$3 100 000	$3 100 000

	Debit	Credit
Agency Funds		
Cash	$ 2 000	
Investments	8 000	
Fund balances		$10 000
	$10 000	$10 000

Attention is called to the following facts and conditions which are disclosed upon examination of the records:

(1) Notes of loan fund amounting to $500 are found to be uncollectible and are to be written off.

(2) An annuity fund of $1,000 for current purposes has matured through the death of the annuitant.

(3) Included in the educational expenditures of the year from current funds is the sum of $14,000 for new equipment.

(4) Equipment included in plant assets at the beginning of year to the amount of $32,000 had worn out or other disposition of it had been made.

(5) Orders and contracts outstanding at the close of year and payable from current funds appropriations amounted to $6,000.

(6) An analysis of Endowment Funds shows that at the beginning of the year $200,000 included therein represent undesignated funds temporarily functioning as Endowment.

(7) A further analysis indicates that $100,000 of Endowment Funds has been expended for a residence hall, the value of which is included in Plant Assets but not in Endowment Funds.

(8) Income and expenditures of Restricted Current Funds are included in the budget estimates and in the totals of Income and Expenditures carried in the general-funds section.

You are required:

(*a*) To make the necessary closing entries in all funds.

(*b*) To prepare a balance sheet after closing.

(*c*) To prepare a statement of current income, expenditures, and surplus for the year.

Illinois Certified Public Accountant Examination, November, 1935.

PROBLEM A-23

(College)

From the following trial balance of the accounts of Watson College and the additional information given, prepare a balance sheet in the proper institutional form:

	June 30, 1939 Debit	Credit
Cash	$ 43 500	
Deposit accounts		$ 2 500
Income from endowment investments		85 500
Income from college operations		100 000
College operating expenses	195 000	
Interest accrued on securities purchased	500	
Inventories		
School supplies	5 000	
General	3 000	
Investments		
Bonds	875 500	
Mortgages	270 000	
Stocks	990 000	
Real Estate	100 000	
Mortgages payable secured by college plant		250 000
College plant		
Land	95 000	
Buildings	1 000 000	
Ground improvements	50 000	
Equipment	160 000	
Profit on sale of endowment fund investments		4 000
Prepaid college expenses	2 000	
Accounts receivable		
Students	3 000	
Miscellaneous	1 000	
Notes receivable	20 000	
Notes payable		2 000
Accounts payable		3 000
Reserve for doubtful accounts receivable		500
Reserve for depreciation of buildings held as endowment-fund investment		5 500
Reserve for contingencies		5 000
Excess of assets over liabilities		3 355 500
	$3 813 500	$3 813 500

ADDITIONAL INFORMATION

1. An analysis of the cash account shows that the cash should be divided as follows:

Current Funds	
Imprest cash	$ 1 000
On deposit	35 000
Loan Funds	2 000
Endowment Funds	4 000
Funds subject to annuity agreements	1 500
	$43 500

2. All the investments were made from Endowment Funds with the exception of $25,500 in bonds purchased from funds subject to annuity agreements. The income and principal of the latter funds are to be used to make certain definite payments during the life of the annuitants. Excess of annuity payments over income has been charged to the principal of the fund.

3. Notes receivable represent loans made to students from funds that are restricted to that purpose.

4. Memorandum records show that $11,500 of Endowment Funds are loaned temporarily to the Current Fund.

5. These records also show that $50,000 of Endowment Funds are invested in the college's plant which is in full accord with the endowment terms.

6. The income from $895,000 of endowment principal is restricted.

7. It was decided that the reserve for depreciation of real estate carried among the investments be funded.

University of Illinois Examination in Accounting Theory and Practice, Part I, November 14, 1940, pages 2 and 3.

PROBLEM A-24

(Hospital)

Based on the data below, prepare:

a. A worksheet to record the transactions relative to the Z County Hospital for the year ended August 31, 1948.

b. A balance sheet of Z County Hospital as of August 31, 1948, which reflects a General Fund, an Endowment Fund, and a Plant Fund.

The X Society, a fraternal order, which operated Z County Hospital for indigent members of the community, donated it on September 1, 1947, to the Village of H, in which it is located. The gift included all

the securities in the Endowment Fund (the hospital's principal source of income), as well as the real estate, equipment, and other assets. Since the village had made no appropriation for the operation and maintenance of a hospital, gifts from public-spirited citizens supplemented the Endowment Fund income to provide for operating costs during the first year of its operation by the village, which coincided with the village fiscal year. No part of the principal of endowments may be used for operations. Before the end of the year preparations were under way for a drive to raise funds to enlarge and improve the plant. Since no money was collected in connection with this drive during the year under consideration, all expenditures for plant improvements were paid out of the General Fund, but it will be reimbursed from the proceeds of the drive.

The following transactions occurred during the first year.

Contributions and Receipts

1. Hospital site—value		$ 25 000
2. Hospital buildings—value		200 000
3. U. S. Treasury bonds contributed as endowment, principal amount		100 000
4. Accrued interest on U. S. bonds at August 31, 1947		1 250
5. Stocks and bonds contributed as endowments (no accrued dividends or interest)—market value		1 300 000
6. Equipment—value		60 000
7. Life insurance policies assigned to hospital as endowments—		
Cash value	$ 5 000	
Face amount	150 000	
(Hospital to pay future premiums)		
8. Contributions from Z County for hospital operations		10 000
9. Contributions from numerous individuals for hospital operations		20 000
10. Proceeds from sponsored charity bazaar		500
11. Interest received from U. S. Treasury bonds		2 500
12. Dividends from stocks		44 000
13. Interest from bonds, other than U. S. Treasury		12 000
14. Sale of stocks included in endowments at $27 000		52 000

Disbursements

15. Building improvements	20 000
16. Equipment	15 000
17. Salaries	15 000
18. Food and dietary supplies	10 000
19. Medicinal supplies	20 000
20. Life insurance premium paid	2 000
21. Property insurance	5 000
22. Light, heat, and water	1 000

23. Expenses of charity bazaar, announcements, etc.	$ 15
24. Other operating expenses	4 000

OTHER INFORMATION

25. Cash value of life insurance held for benefit of hospital at August 31, 1948	6 500
26. Contributions subscribed but not collected	5 000
27. Prepaid insurance at end of year	500
Balance in bank per bank statement at end of period	51 085
Outstanding checks amount to $3 300 and the last day's deposit of $1 200 is not included on the bank statement.	
28. Upon completion of the $20 000 improvements to the hospital building it was appraised at $250 000.	

The Accounting Review, April, 1949, pages 213–214.

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FINANCIAL REPORTS

Financial reports of numerous governmental bodies constitute useful reference material. It is impossible to list all reports that are suitable for this purpose; hence only a selected group is presented.

Federal

Treasury Department: Financial Statements of Independent Agencies, 1941.

Tennessee Valley Authority.

Audit Reports of Corporation Audits Division, General Accounting Office.

State

Michigan, Auditor General.

New York, Comptroller.

Virginia, Comptroller.

County

Los Angeles, California.

Denver, Colorado (City and County).

Wayne, Michigan.

Salt Lake, Utah.

City

Birmingham, Alabama.

Tuscaloosa, Alabama.

Los Angeles, California.

Pasadena, California.

Topeka, Kansas.

Baltimore, Maryland.

Boston, Massachusetts.

Detroit, Michigan.

Saginaw, Michigan.

St. Paul, Minnesota.

Kansas City, Missouri.

Atlantic City, New Jersey.

New Rochelle, New York.

New York City, New York.

Portland, Oregon.

Pittsburgh, Pennsylvania.

Chattanooga, Tennessee.

Richmond, Virginia.

Seattle, Washington.

Milwaukee, Wisconsin.

Various

Town of Greenwich, Connecticut.

Chicago, Illinois, Park District.

Park Employees' Retirement Fund, Chicago, Illinois.

Most colleges and universities now follow the recommendations of the National Committee on Standard Reports or Institutions of Higher Education in their published reports. All such reports are worthy of study. Many illustrations could be given, and the following list consists only of selections from institutions of various types and sizes:

Brown University.

California, University of.

Catholic University of America.

Chicago, University of.

Cincinnati, University of.

Davidson College.

Howard University.

Illinois, University of.

Iowa State College.

Johns Hopkins University.

Louisiana State University.

New Hampshire, University of.

New York City, Board of Higher Education.

Smith College.

Southern California, University of.

Southern Illinois University.

Syracuse University.

Tennessee, University of.

Texas, University of.

Upper Iowa University.

Vassar College.

Washington University.

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